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No Minimum Wage Increase in the U.S. This Year

- President Obama and congressional Democrats are currently pressing for an increase in the federal minimum wage from \$7.25/hour to \$10.10. However, there is very little chance any such increase will pass Congress this year.
- Some well-known Republicans have attracted attention in recent days for endorsing an increase, such as Mitt Romney and Rick Santorum. However, they carry only modest influence with Republican members of Congress.
- A minimum wage increase would force some employers to reshuffle their compensation pools, possibly favoring larger employers better able to absorb a different salary structure, and allowing companies to reduce the overall level of employment. An increase could also boost companies involved in automation.

How a Minimum Wage Hike Could Be Considered

As a standalone piece of legislation, a minimum wage hike has zero chance of being enacted. It's somewhat plausible as a Democratic add-on to any major deal on the budget or taxes at the end of the year, but even then is unlikely.

Tea Party Drives Opposition

It's no mistake that Romney and Santorum - former candidates for President both - have come out in favor of a minimum wage hike, but congressional Republicans remain overwhelmingly opposed - see [Politico's Wednesday story](#) on the subject. Both men have largely faded from relevance on Capitol Hill, missing a signature transformation over the past eight years.

In the 2006 elections, Republicans lost control of both chambers of Congress. Since then, the party's voters have largely concluded that the 2006 and 2008 debacles were principally due to a failure to fulfill promises of controlling spending and limiting the size and scope of government.

(The 2008 financial crisis is held in the eye of the observer, with Democrats arguing that insufficient regulation was principally at fault, while Republicans blame Fannie Mae and Freddie Mac.)

This paradigm - that Republicans failed because they weren't conservative enough - has been the guiding light of the "Tea Party." Of course, the phenomenon of the Tea Party itself is principally revived intensity from conservative voters reacting against President Obama and the Democratic agenda in 2008-09.

Relevant Tickers
WMT, YUM, MCD, DEG, EMR,
ROK, and SI.

Stepping back, 2006 is important as the year that both Romney and Santorum left public office - Santorum defeated for reelection to the U.S. Senate in Pennsylvania, Romney as he retired from the Massachusetts governorship.

Tim Pawlenty, another member of the ill-fated Republican field for President in 2012, also urges Republicans to consider increasing the minimum wage. He also last sought office successfully in 2006.

The 2010 wave added scores of new Republicans to the House and Senate, and in the state legislatures, Republicans netted over 700 seats in a universe of roughly 7,000. These Republicans represent a significant shift to the right on economic issues.

Notably, Republicans who predate this era, but have continued to be elected during it, have largely adapted. The Politico story above references several such Republicans - including Sens. Richard Burr (R-NC), Mike Johanns (R-NE), and John Cornyn (R-TX) - all of whom are opposing a minimum wage increase. None can be easily lumped in with bomb-throwers such as Sens. Ted Cruz (R-TX) or Rand Paul (R-KY).

Romney is likely stung by autopsies of his 2012 presidential campaign that show the electorate regarding him as “an out-of-touch rich guy.” And Santorum has built his career on a mix of social conservatism and blue-collar populism. Pawlenty is really a more mainstream-friendly version of Santorum in that respect. And many Republican strategists have spotlighted a weakness in 2012 among blue-collar voters - who favor an increase in the minimum wage - as rivalling the party’s weakness among young, minority, and female voters.

CBO Gives Republicans Irresistible Talking Point

In February, the Congressional Budget Office issued [a report](#) on the minimum wage, projecting that 16.5 million workers would see higher pay, but up to 1 million jobs would be eliminated. This gave heft to Republican arguments that any minimum wage hike would have tradeoffs, and that the federal government lacks the moral authority to make such a choice for workers who would lose their jobs.

Whether this is really a silver bullet talking point is unclear. Protecting a million jobs sounds good, but for many voters, the idea of giving a raise to working-class folks will sound better. Most polling suggests that the minimum wage is popular even with many Republican voters.

Democrats Campaign on Minimum Wage Hike

Democrats, for their part, argue that the CBO report may overstate potential job losses, and that the true moral imperative for government is to increase the minimum wage to account for inflation and the soft economy.

Democrats are not simply using the issue as a campaign tool, though it is certainly a key part of their election-year message. Democratic-aligned unions are also incentivized to push for minimum wage increases. This is not true of all unions, but for unions in industries with a high correlation of minimum wage positions such as the restaurant industry, the federal

minimum wage is typically a benchmark for salaries used in union contracts. So the SEIU and UFCW are key unions pushing for a minimum wage increase, while the teachers' unions and the airline pilots will naturally be less engaged.

Previous Notes on This Topic

- [Legal Changes Could Curb U.S. Labor Unions](#) - April 25, 2014
- [Unions at Volkswagen in Tennessee: Likely Doomed But Not Conceding](#) - April 17, 2014
- [Policy Trends Driving Labor Costs Up](#) – March 21, 2014
- [UAW Likely to Lose Do-Over at Volkswagen](#) - February 24, 2014

Relevant Stocks

WMT, YUM, MCD, DEG, EMR, ROK, and SI.

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