

# Policies to Protect Workers from Wage Theft

## OVERVIEW

Raising the minimum wage is a hot-button topic in the United States, yet the discussion often ignores “wage theft,” which includes when employers pay their employees below the minimum wage. Existing research views wage theft in economic terms—employers underpay their workers because the financial benefits outweigh the potential costs of getting caught—but IPR political scientist **Daniel Galvin** frames it as a policy issue. Analyzing wage-and-hour laws and minimum wage violations in all 50 states, Galvin finds that workers are significantly less likely to be paid below the minimum wage in states with stricter laws against wage theft. And states that have enacted treble damages—triple back pay as a penalty—have seen the steepest declines in wage theft. However, effective policies require three conditions: favorable partisan majorities in state government, determined coalitions of workers’ advocates lobbying for change, and strong enforcement of penalties.

## FINDINGS

**Wage theft is concentrated among low-wage workers, especially women, minorities, non-U.S. citizens, and nonunion workers.** An estimated 16.9 percent of low-wage workers experienced a minimum wage violation in 2013. On average, these workers lost nearly a quarter of their income to wage theft, earning \$5.92 an hour, on average, versus the \$7.68 an hour they would have earned if paid their state’s minimum wage. Certain groups—women, minorities, non-U.S. citizens, and nonunion workers—are all more likely to suffer from wage theft, highlighting its unequal effects.

## POLICY TAKEAWAYS

- Wage theft disproportionately affects low-wage workers, especially women, nonwhites, noncitizens, and nonunionized low-wage workers.
- Stronger state-level wage and hour laws and their enforcement lead to lower incidences of wage theft.
- The implementation of “treble damages” in five states led to statistically significant drops in violation rates.



IPR political scientist **Daniel Galvin**’s research focuses on the development of political institutions, political organizations, and public policy in the United States.

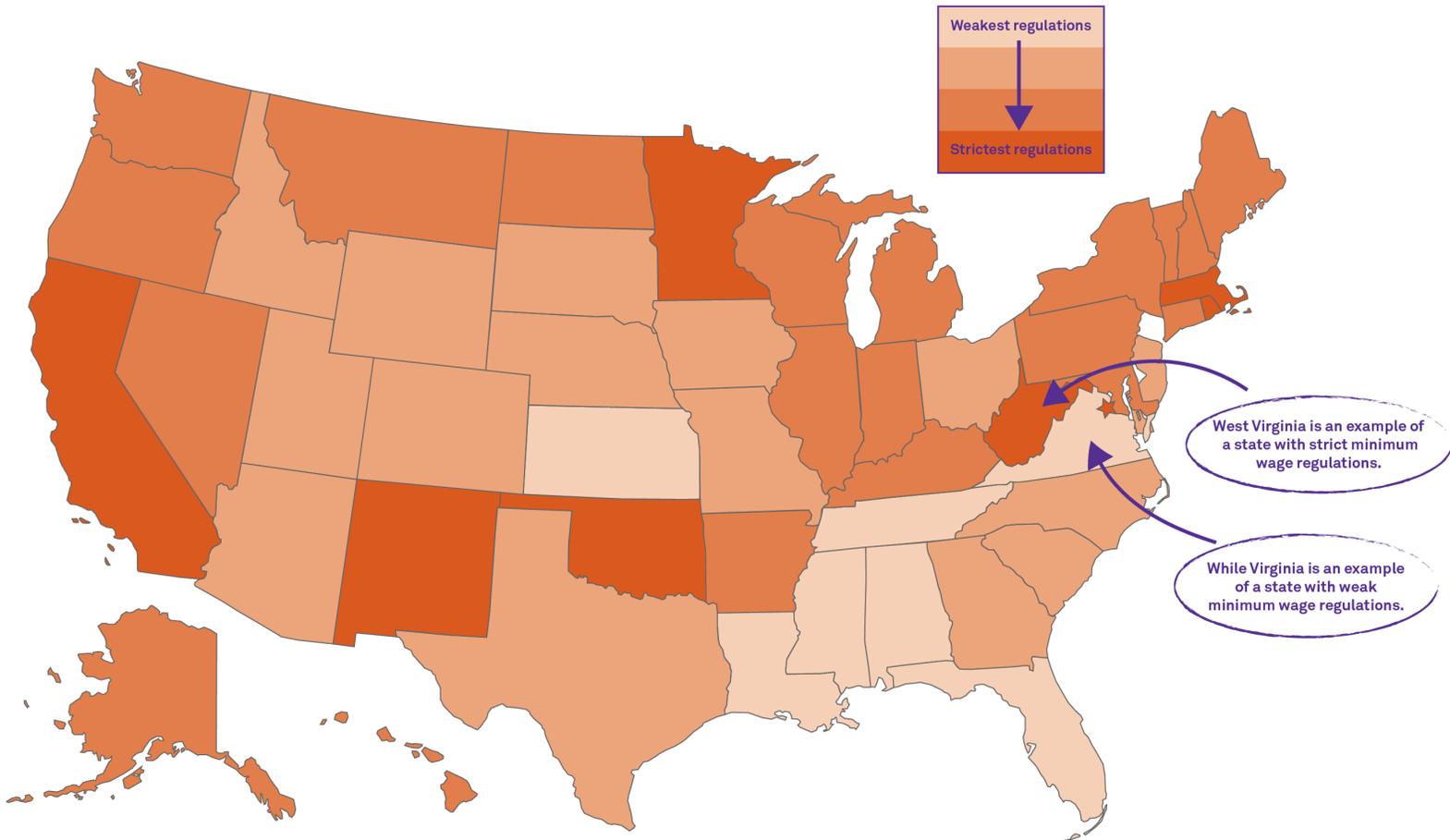
**Federal enforcement of wage theft laws is weak, and state laws vary greatly.** The Fair Labor Standards Act (FLSA) of 1938 established national standards to protect workers and their pay, but its enforcement mechanisms, especially the Wage and Hour Division, have weakened over time. State enforcement, likewise, has been weak and spotty, exacerbated by considerable variation in the strength of state wage-and-hour laws: For example, Mississippi has no minimum wage laws on its books, while Massachusetts and New Mexico offer strong regulations and enforcement.

### **Stricter state laws lead to less wage theft.**

Controlling for demographic, economic, and political factors, Galvin shows that low-wage workers in states with stronger penalties for noncompliance are less likely to experience a minimum wage violation. And among different types of “wage theft laws” passed at the state level, the introduction of treble damages has the greatest deterrent effect. While the probability of experiencing a minimum wage violation is still high even in states with stronger penalties, the strength of a state’s penalties matters, as even a small reduction in violations can prevent lost wages for thousands of workers.

**Politics and policy coalitions matter.** Galvin also points to two additional conditions to enact effective policy: favorable partisan majorities in state government—almost all current state laws were passed under Democratic governors and Democratic legislative majorities—and determined coalitions of workers’ advocates lobbying for change.

## Wage and hour laws vary greatly by state, with stronger regulations leading to less wage theft



### METHODOLOGY

Galvin draws on an original database of state-level wage and hours laws in all 50 states to measure the strength of each state's penalty scheme. He then estimates minimum wage violations in each state using Current Population Survey (CPS) data. Using a two-step estimation strategy to analyze the effect of state laws on minimum wage violations, he finds that states with stricter penalties have significantly lower levels of wage theft. In a second analysis also employing CPS data, he uses difference-in-differences models to test the within-state effects of five different types of "wage theft laws," revealing the power of treble damages to protect low-wage workers from wage theft.

### REFERENCES

Galvin, D. 2016. Deterring wage theft: Alt-labor, state politics, and the policy determinants of minimum wage compliance. *Perspectives on Politics* 14(2): 324–350.

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### FACTS AND FIGURES

- One in six low-wage workers (16.9 percent) experienced a minimum wage violation in 2013.
- The victims of these violations lost 23 percent of their earnings on average.
- Wage-and-hour laws vary greatly by state, from no regulations in Louisiana to strict regulation and enforcement in Massachusetts.

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