

WAGE FLOOR FOR MANUFACTURING WORKERS ON PRODUCTS CONTRACTS

On April 27, 2021, President Biden issued Executive Order 14026, “Increasing the Minimum Wage for Federal Contractors.” Executive Order 14026 states that the Federal Government’s procurement interests in economy and efficiency are promoted when the Federal Government contracts with sources that adequately compensate their workers. The Executive Order raises the minimum wage paid by those contractors to workers performing work on or in connection with covered federal contracts annually; as of January 1, 2024, the minimum wage rate is \$17.20 per hour.

What Executive Order 14026 does not cover, however, are wages for individuals working on contracts to manufacture products for the Federal Government. This creates a serious discrepancy between the wages paid to Federal contract employees who provide services to the Federal Government, and those who manufacture products. In states that use the Federal minimum wage of \$7.25 per hour, this is a difference of over 237%. A 2017 study published by the McKinsey Global Institute found that one third of all manufacturing production workers rely on food stamps or other federal assistance programs to make ends meet. The lack of a meaningful base wage for manufacturing workers leads to instability in the workforce and inhibits our ability to secure our nation’s economic and national security future.

In order to address this inequity, we are proposing an amendment in the FY25 NDAA to establish a wage floor of \$15 per hour for U.S. workers who manufacture materials, supplies, articles, and equipment for the Department of Defense; and annually thereafter, an amount determined by the Secretary of Labor.

After the supply shortages during the COVID-19 pandemic, the Federal Government, especially the Department of Defense (DoD), has begun to push to bring essential parts manufacturing back from overseas. Manufacturing jobs used to offer more competitive compensation package than other

sectors, especially food service and retail, by combining higher wages with benefits packages. In the past several years, however, especially during the pandemic, wages in food service and retail have far outpaced manufacturing. A Federal wage floor in the NDAA would allow Federal contracting manufacturers to pay a competitive, fair and equitable wage for workers manufacturing essential products for our national defense. It would provide a level playing field for manufacturing firms so that price competition does not sacrifice living wages for workers.

The lack of a wage floor for manufacturing workers creates an unlevel playing field for the manufacturing firms who are trying to stay competitive with an increasingly price conscious Federal customer. In many cases, the primary cost driver is labor, which can be obtained significantly more cheaply in states that use the Federal minimum wage, as compared to states that have enacted a higher state minimum wage. Arizona, for example, has a state minimum wage of \$14.35 per hour, 198% of the Federal minimum wage. Increasing efficiencies can only take us so far when states using the Federal minimum wage have an almost 100% price advantage to start.

In February 2023, Commerce Secretary Raimondo spoke to how legislation like the CHIPS Act provides a historic opportunity to solidify the nation’s global leadership in technology and innovation and at the same time rebuild the country’s manufacturing sector and protect national security. A wage floor for manufacturing workers gets to the heart of our national security interests by strengthening our industrial supply chain, allowing U.S. companies to better support our DoD customer. Additionally, leveling the playing field, particularly when it comes to wages, leads to more robust competition nationally for commodity goods for our Federal customer. Considering the critical need for the U.S. to invest in strengthening our defense industrial base, a wage floor in the FY24 National Defense Authorization Act (NDAA) is another actionable path forward.