

Money Matters

Raising the Minimum Wage: Real Benefits for Kentucky Families

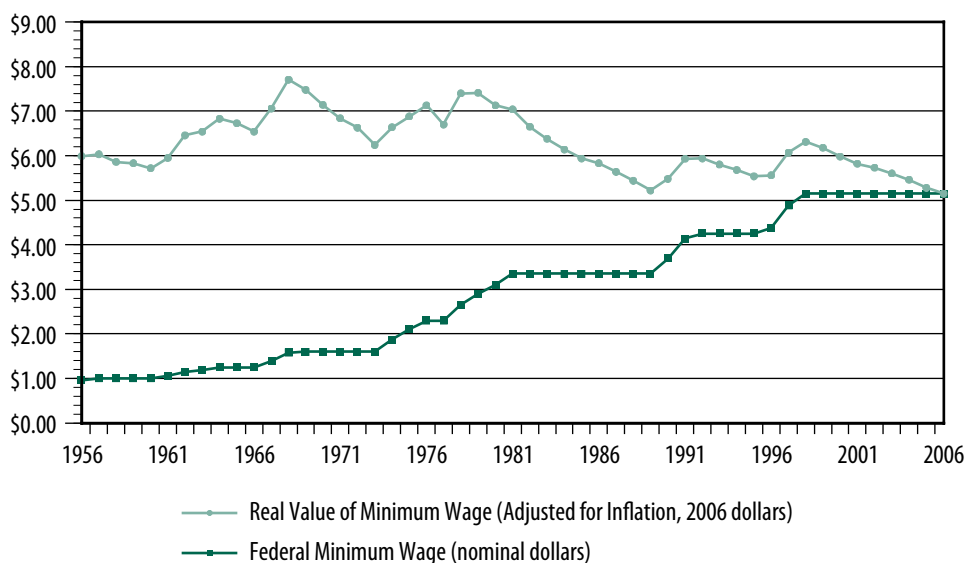
The Federal Minimum Wage: Unchanged for Ten Years

The federal minimum wage was first established by Congress in 1938 as a provision of the Fair Labor Standards Act. The intent of the law was to reward work and keep the American promise that if you work hard and play by the rules, you are entitled to a decent day's pay. The original minimum wage was set at \$0.25 per hour and contained no provisions for automatic adjustments for the cost of living.

Congress has not increased the minimum wage since 1997, the second longest stretch of federal inaction in the history of the law. Without an increase in the rate, the minimum wage continues to lose power each year due to rising inflation.

As Chart 1 shows, the current federal minimum wage of \$5.15 per hour is at its lowest real value (after adjusting for inflation, using CPI-rs) in the last 50 years. The purchasing power of the minimum wage has deteriorated by 20 percent since the last increase in the minimum wage in 1997.

Chart 1: The Real Value of the Federal Minimum Wage, 1956–2006



Source: Economic Policy Institute, *EPI Issue Guide: Minimum Wage*. Last updated July 2006. Available at www.epinet.org

Congressional Proposal to Raise the Minimum Wage Stalled

Several proposals before Congress would raise the minimum wage to \$7.25 by 2008. The Economic Policy Institute (EPI) estimates that 11 percent of the American workforce (14.9 million workers) would receive an increase in their hourly wages. Nearly half of these workers (5 percent of the workforce, or 6.6 million workers) currently have

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wages below \$7.25 and would be directly affected by the wage hike. The additional 8.3 million workers earn slightly more than the minimum and would be likely to see a wage increase due to “spillover effects.”¹

EPI reports that 80 percent of the workers who would benefit from such a minimum wage increase are adults (age 20 or older), 54 percent work fulltime and another 30 percent work 20 to 34 hours per week, and 59 percent are women.² In a recent Congressional forum on the federal minimum wage in Louisville, U.S. Representative George Miller pointed out that many workers at or near the minimum wage are supporting families. He estimated that 58 percent of the families whose incomes would increase with a federal minimum wage hike have children.³

Due to the relatively lower wages of Kentucky workers, they stand to benefit more from an increase in the federal minimum wage. EPI estimates that nearly one in five Kentucky workers (19 percent) would benefit from the \$7.25 proposal before Congress.⁴

The U.S. House approved the minimum wage increase before the August (2006) recess but combined it with a proposal to sharply reduce the estate tax. The Senate failed to get the necessary votes to take up the combined bill. At this time, it is unclear when a minimum wage increase will be considered again by Congress.

Many States Establish Minimum Wage Greater than Federal Law

Twenty-two states and the District of Columbia have enacted their own minimum wage laws that establish wages higher than the current federal minimum wage. So far in 2006, state legislatures in Arkansas, Maryland, Michigan, North Carolina, and Pennsylvania passed new laws to raise their minimum wages above the federal level. Maine, Delaware, California, and Rhode Island – all states with minimum rates already above the federal level – passed additional increases this year. Four states, Florida, Oregon, Vermont, and Washington, automatically adjust their state minimum wage each year to keep up with inflation and cost of living increases.

The Minimum Wage Proposal in Kentucky: \$6.50 on July 1, 2008

State Representative J.R. Gray has prefiled a bill during the 2006 interim to create a state minimum wage. The current language calls for a state minimum of \$6.00 upon enactment and increases the minimum to \$6.50 a year later on July 1, 2008.⁶ Representative Gray and 22 co-sponsors introduced a bill with the same provisions during the 2006 General Assembly.⁷ The bill was approved by the House Labor and Industry Committee but was eventually recommitted to the Committee after “unfriendly” floor amendments were filed.

Table 1: States with Minimum Wage Greater than Federal Minimum Wage⁵

State	2006 State Minimum Wage
Alaska	\$7.15
Arkansas	\$6.25 (effective 10/1/06)
California	\$6.75 (will increase to \$7.50 on 1/1/07 and to \$8.00 on 1/1/08)
Connecticut	\$7.40 (will increase to \$7.65 on 1/1/07)
Delaware	\$6.15 (will increase to \$6.65 on 1/1/07 and to \$7.15 on 1/1/08)
District of Columbia	\$7.00
Florida	\$6.40 (annually adjusted for inflation)
Hawaii	\$6.75 (will increase to \$7.25 on 1/1/07)
Illinois	\$6.50
Maine	\$6.50 (will increase to \$6.75 on 10/1/06 and to \$7.00 on 1/1/07)
Maryland	\$6.15
Massachusetts	\$6.75 (will increase to \$7.50 on 1/1/07 and to \$8.00 on 1/1/08)
Michigan	\$6.95 (effective 10/1/06; will increase to \$7.15 on 7/1/07 and to \$7.40 on 7/1/08)
Minnesota	\$6.15
New Jersey	\$6.15 (will increase to \$7.15 on 10/1/06)
New York	\$6.75 (will increase to \$7.15 on 1/1/07)
North Carolina	\$6.15 (effective 1/1/07)
Pennsylvania	\$6.25 (effective 1/1/07; will increase to \$7.15 on 7/1/07)
Oregon	\$7.50 (annually adjusted for inflation)
Rhode Island	\$7.10 (will increase to \$7.40 on 1/1/07)
Vermont	\$7.25 (annually adjusted for inflation)
Washington	\$7.63 (annually adjusted for inflation)
Wisconsin	\$6.50

Table 2: Characteristics of Kentucky workers affected by minimum wage increase to \$6.50

	Affected directly	Other low-wage workers indirectly affected	Total workforce
Number of workers	84,000	105,000	1,738,000
Percent of workforce	5%	6%	100%
Males		39%	51%
Females		61%	49%
20 and older		80%	95%
Married		34%	57%
Parent		23%	36%
Work full time (35+ hrs)		52%	82%
Work part time (20–34 hrs)		32%	13%
Industry – Retail trade		27%	13%
Occupation—Service		32%	15%
Occupation—Sales		22%	10%

Source: Economic Policy Institute analysis of 2005 Current Population Survey data on Kentucky workforce, prepared for Kentucky Youth Advocates, except 20 and older percentage, which is based on national workforce data.

Kentucky Proposal Would Boost Wages for Nearly 200,000 Workers

Who would actually benefit from a Kentucky law requiring an increase in the minimum wage? Fully 11 percent of Kentucky workers, or 189,000 individuals, would be advantaged by increasing the minimum wage to \$6.50.

Table 2 shows the characteristics of Kentucky workers who benefit. A state minimum wage would impact Kentucky workers across the board: both men and women would receive wage hikes, although women are more likely to be affected because of their overrepresentation in traditionally low wage occupations. Significant numbers of Kentucky workers who are married and workers who are parents would get wage increases – 34 percent of workers who would benefit are married and 23 percent have children. Over half the benefiting workers work full time (35 or more hours per week). Based on national data, 80 percent of the workers who would receive wage increases are 20 years old or older.

As shown in Table 2, the benefit of increasing the minimum wage is not restricted to teens and part time workers as some claim. In fact, 79,000 Kentucky children would see family income increase as a result of instituting a state minimum wage of \$6.50.⁸ While the increased wages might not lift all of these children and their families out of poverty, family incomes would increase, in some cases substantially.

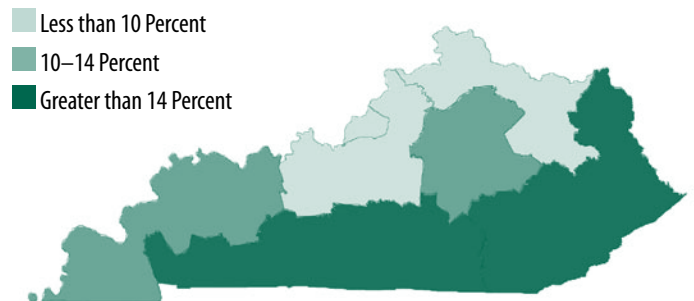
Impact of Raising Minimum Wage Greatest in Southern and Eastern Kentucky

As the map shows, the regional impact of raising the state minimum wage to \$6.50 differs across the state.

In the southern and eastern parts of Kentucky, more than 14 percent of the workforce would positively benefit, either directly or because of spillover affects, from passage of a state law setting the minimum wage at \$6.50.

The Bluegrass, Purchase and Green River areas of the state would also disproportionately benefit.

Regional Impact of a Minimum Wage Increase to \$6.50



Source: Economic Policy Institute analysis of 2005 Current Population Survey data on Kentucky workforce, prepared for Kentucky Youth Advocates.

Raising the Minimum Wage: \$108 Million Boost in Wages for Kentucky Workers

New wages to Kentucky workers as a result of raising the minimum wage to \$6.50 would total \$108 million according to EPI calculations.⁹ The largest share of the increase would accrue to workers whose wages fall below the new mandated minimum – \$67 million. The remaining \$41 million in increased wages would be a result of the “spillover” wage hikes for those near the new minimum.

Kentuckians currently making the minimum wage would see their wages boosted 26 percent, from \$5.15 to \$6.50 per hour. Yet, as a total of all wages currently paid to Kentucky workers, the \$108 million is an increased cost of less than one-fifth of one percent – just 0.17 percent. Within the retail trade sector, whose workers traditionally have lower wages, the estimated increase in wages is \$26 million, still just 0.45 percent (less than one half of one percent) of current retail wages. Of course, individual employers might face somewhat larger costs to meet the new minimum wage law depending upon the wage levels they actually pay and the proportion of low-wage workers in their workforce.

As a percentage of all wages paid in the state, meeting the new minimum wage represents a very small increased cost for employers. It is unlikely any employer would face an unaffordable increase in wage obligations. At the same time, the \$108 million in increased wages will be spent in local economies as low-income families make postponed purchases and pay down debt.

Conclusion

The minimum wage guarantees that American workers are paid a fair wage that allows them to provide for their families. It has been ten years since the lowest paid workers have had a raise. Today’s federal minimum wage of \$5.15 has the least purchasing power of the last 50 years. Twenty-two states and the District of Columbia have moved to protect workers and their families by adopting state minimum wages above the federal level.

A bill drafted for consideration in the 2007 Kentucky General Assembly would move the minimum wage to \$6.50 by July 1, 2008. Nearly 200,000 Kentucky workers would receive boosted wages. More than half of those workers are full-time, 34 percent are married, and 23 percent have children. In a state where too many families struggle every day, there is no question that raising the minimum wage would substantially improve the quality of life for many Kentuckians.

Endnotes

- 1 Economic Policy Institute, *EPI Issue Guide: Minimum Wage*. Last updated July 2006. Available at www.epinet.org
- 2 Economic Policy Institute, *EPI Issue Guide: Minimum Wage*. Last updated July 2006. Available at www.epinet.org
- 3 Congressman George Miller, minimum wage forum, Louisville, KY, July 14, 2006.
- 4 Economic Policy Institute analysis of 2005 Current Population Survey data prepared for Kentucky Youth Advocates.
- 5 Economic Policy Institute, *EPI Issue Guide: Minimum Wage*. Table 5. Last updated July 2006. Available at www.epinet.org. Melanie Brooks, Inc.com. *Pennsylvania Raise Minimum Wage to \$7.15*. July 13, 2006. Available at <http://www.inc.com/criticalnews/articles/200607/pennsylvania.html>; WRAL.com. *Easley Signs Minimum-Wage-Increase Bill*. July 13, 2006. Available at <http://www.wral.com/news/9512113/detail.html>.
- 6 Legislative Research Commission, *Legislative Record Online*, prefiled bills. Available at <http://www.lrc.ky.gov/record/07RS/HB17.htm>.
- 7 Legislative Research Commission, *Legislative Record Online*, HB 378. Available at <http://www.lrc.ky.gov/record/06RS/HB378.htm>.
- 8 Economic Policy Institute analysis of 2005 Current Population Survey data prepared for Kentucky Youth Advocates.
- 9 Economic Policy Institute calculations based on 2005 Current Population Survey data prepared for Kentucky Youth Advocates.