

Money Matters

Raising the Minimum Wage: Real Benefits for Kentucky Families

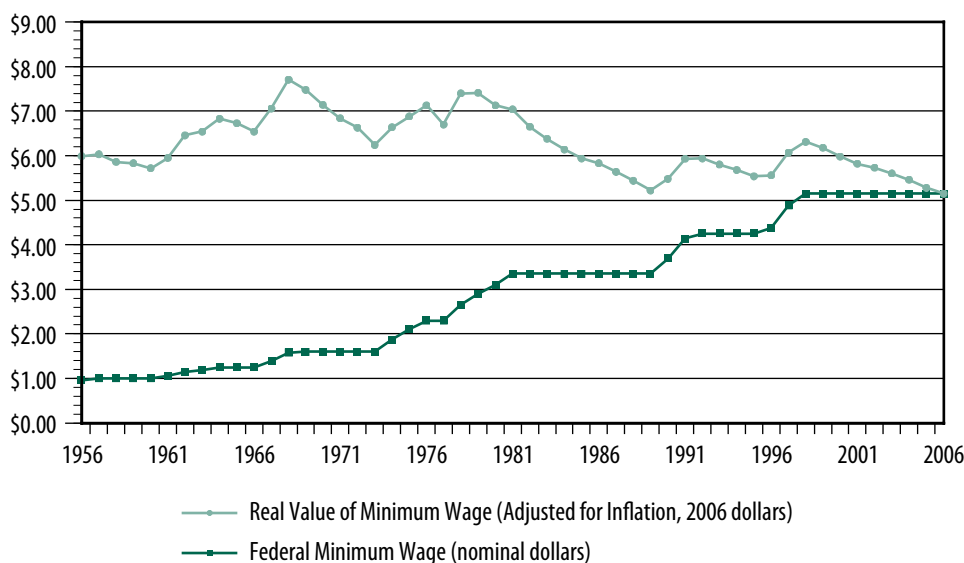
The Federal Minimum Wage: Unchanged for Ten Years

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

State	2006 State Minimum Wage
Alaska	\$7.15
Arizona	\$6.75 (effective 1/1/07) (annually adjusted for inflation)
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)
Colorado	\$6.85 (effective 1/1/07) (annually adjusted for inflation)
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

State	2006 State Minimum Wage
Minnesota	\$6.15
Missouri	\$6.50 (effective 1/1/07) (annually adjusted for inflation)
Montana	\$6.15 (effective 1/1/07) (annually adjusted for inflation)
Nevada	\$6.15 (effective 1/1/07) (annually adjusted for inflation)
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)
Ohio	\$6.85 (effective 1/1/07) (annually adjusted for inflation)
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)
West Virginia	\$6.55 (effective 7/1/07) (will increase to \$7.25 on 7/1/08)
Wisconsin	\$6.50

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. The new leadership of the U.S. House and Senate has prioritized passing a

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	126,000	149,000	1,738,000
Percent of workforce	7.2%	8.5%	100%
Males		40%	51%
Females		60%	49%
20 and older		83%	95%
Married		37%	57%
Parent		24%	36%
Work full time (35+ hrs)		55%	82%
Work part time (20–34 hrs)		31%	13%
Industry – Retail trade		25%	13%
Occupation—Service		31%	15%

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.

minimum wage increase when Congress meets in January 2007.

Many States Establish Minimum Wage Greater than Federal Law

Twenty-nine states and the District of Columbia have enacted their own minimum wage laws that establish wages higher than the current federal minimum wage. Voters in six states (AZ, CO, MO, MT, NV and OH) approved initiative measures to establish state minimum wages in November 2006. Also in 2006, state legislatures in Arkansas, Maryland, Michigan, North Carolina, West Virginia, 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. Ten states automatically adjust their state minimum wage each year to keep up with inflation and cost of living increases.

The Minimum Wage Proposal in Kentucky: \$7.00 on July 1, 2007

State Representative J.R. Gray will file a bill for the 2007 General Assembly to create a state minimum wage. It calls for a state minimum of \$7.00 upon enactment. Representative Gray and 22 co-sponsors introduced a bill with similar provisions

during the 2006 General Assembly.⁶ The 2007 bill will also include an annual adjustment for inflation and require that tipped employees (such as restaurant servers) be paid the minimum wage.

Kentucky Proposal Would Boost Wages for Nearly 275,000 Workers

Who would actually benefit from a Kentucky law requiring an increase in the minimum wage? Fully 16 percent of Kentucky workers, or 275,000 individuals, would be advantaged by increasing the minimum wage to \$7.00.

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 over-representation in traditionally low wage occupations. Significant numbers of Kentucky workers who are married and workers who are parents would get wage increases – 37 percent of workers who would benefit are married and 24 percent have children. Over half the benefiting workers work full time (35 or more hours per week). Further, 83 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, 117,000 Kentucky children would see family income increase as a result of instituting a state minimum wage of \$7.00.⁷ 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.

Raising the Minimum Wage: \$224 Million Boost in Wages for Kentucky Workers

New wages to Kentucky workers as a result of raising the minimum wage to \$7.00 would total \$224 million according to EPI calculations.⁸ The largest share of the increase would accrue to workers whose wages fall below the new mandated minimum – \$153 million. The remaining \$71 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 36 percent, from \$5.15 to \$7.00 per hour. Yet, as a total of all wages currently paid to Kentucky workers, the \$224 million is an increased cost of less than one-third of one percent – just 0.36 percent. Within the retail trade sector, whose workers traditionally have lower wages, the estimated increase in wages is \$55 million, still just 0.94 percent (less than 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 \$224 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 \$7.00 by July 1, 2007. Nearly 275,000 Kentucky workers would receive boosted wages. More than half of those workers are full-time, 37 percent are married, and 24 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 November 2006. Available at www.epinet.org. Labor Law Center. *West Virginia 2007 Minimum Wage*. Available at <http://blog.laborlawcenter.com/2006/10/13/west-virginia-2007-minimum-wage/>.
- 6 Legislative Research Commission, *Legislative Record Online*, HB 378. Available at <http://www.lrc.ky.gov/record/06RS/HB378.htm>.
- 7 Economic Policy Institute analysis of 2005 Current Population Survey data prepared for Kentucky Youth Advocates.
- 8 Economic Policy Institute calculations based on 2005 Current Population Survey data prepared for Kentucky Youth Advocates.