

July 2009

## The New Minimum Wage Rate: A Net Benefit to Kentucky

On July 1, the minimum wage will increase to \$7.25 an hour – up 70 cents from \$6.55 an hour. For individuals earning minimum wage and working full-time, this increase will provide an additional \$1,400 of income annually.<sup>1</sup> Although there may be some negative impacts as a result of the increase in labor costs, we find that these negative impacts are likely to be small. Overall, the increase in the minimum wage will benefit Kentucky’s low-income working families and provide million’s of dollars in benefits to Kentucky’s economy.

### History of Minimum Wage Increase

Working families should not need to raise their children in poverty. This widespread agreement sparked discussion to raise minimum wage in the mid-2000s when inflation reduced the impact of earlier minimum wage increases and brought it to “its lowest inflation-adjusted level in more than 50 years.”<sup>2</sup> The “Fair Minimum Wage Act of 2007” called for annual, incremental increases in the federal minimum wage for three years: increasing to \$5.85 in July 2007, \$6.55 in July 2008, and \$7.25 this month. Experts believed this would help low-income working families move towards greater financial self-sufficiency. As a result, most states, including Kentucky, adopted the incremental increases. Some states even went a step further to ensure a fair minimum wage over time by pegging their minimum wage rate to inflation.

### Anticipated Impact

Raising the minimum wage rate will increase the annual income of full-time, minimum wage employees by \$1,400 a year - from \$13,100 to \$14,500. This additional \$28 per week is most likely to be spent in local communities on goods and services like gasoline, groceries, and haircuts. According to a study from the Federal Reserve Bank of Chicago, “spending increases substantially after the [minimum wage] hike, with most of the spending occurring on durable goods and in particularly, transportation goods.”<sup>3</sup>

Minimum Wage	\$0.70
Weekly Earnings	\$28.00
Monthly Earnings	\$123.20
Annual Earnings	\$1,400

Source: KYA calculations based on 40-hour work week, 22-day work month, and 50-week work year

KENTUCKY  
YOUTH  
ADVOCATES

11001 Bluegrass Pkwy  
Suite 100  
Jeffersontown, Ky 40299  
502.895.8167  
www.kyyouth.org

According to estimates from the Economic Policy Institute, an estimated 133,000 workers in Kentucky will be *directly* affected by the increase in the minimum wage. In addition, 162,000 workers earning slightly more than \$7.25 an hour may be *indirectly* impacted by the increase in the minimum wage as employers also increase other low wages to maintain the balance of the pay structure in their businesses. <sup>4</sup>

Nationally, of those estimated to be directly affected by the increase in the minimum wage rate, 61 percent are women; 25 percent are parents; and 9 percent are identified as single parents. Only 22 percent of minimum wage workers nationally are teenagers. <sup>5</sup> Therefore, the majority of the increase in the minimum wage will help working adults and families with dependent children make ends meet.

Although the full implementation of the “Fair Minimum Wage Act of 2007” substantially increases individual and family income, families of any size making no more than the minimum wage will still be below the federal poverty line. Table 2 shows that a parent with one child must make more than \$14,570 annually to be above the poverty line in 2009. For this reason work support programs, like

housing assistance, food stamps, and child care subsidies, are still vitally important to help families make ends meet. Because the new minimum wage rate does not raise all families above the poverty line, most families currently eligible for work support benefits will remain eligible.

<b>Table 2:</b>	
<b>2009 Poverty Guidelines</b>	
Persons in family	Poverty guideline
1	\$10,830
2	\$14,570
3	\$18,310
4	\$22,050
For families with more than four people, add an additional \$3,740 per person.	

Source: Department of Health and Human Services, <http://aspe.hhs.gov/poverty/09poverty.shtml>

Some people fear an increase in the minimum wage will result in large scale layoffs making low-wage workers worse off rather than better off. Multiple studies find that a mandated increase in the minimum wage results in the loss of relatively few jobs – an average of 2.1 percent. <sup>6</sup> Moreover, economists find that the economy drives demand for low-wage jobs, rather than the minimum wage rate. <sup>7</sup> This means that is likely that low wage job losses due to the economy have already been realized and additional losses because of the increase in the wage rate will be minimal.

Even though large-scale job losses are unlikely, some workers may still be negatively impacted. The mandated increase in the wage rate necessarily increases employment costs for businesses. As a result employers may reduce the hours of current employees, transfer employees from full to part-time status or decrease employee benefits. <sup>8</sup> Employers will have to make these decisions carefully and with regard to the tradeoffs that exist. For instance, job layoffs and reduction of hours may decrease productivity and, in turn,

business profits. A reduction in benefits may encourage dependable low-wage workers to seek employment elsewhere. For these reasons, and the fact that the incremental increases in the minimum wage have been well known, we expect the negative impact on individuals and families to be small.

## Conclusion

---

Finding that, as a result of the increase in the minimum wage rate in Kentucky:

- 1.) the take-home pay of low-income working families will increase;
- 2.) most low-income work supports will remain intact;
- 3.) low-wage earners are likely to spend the additional income; and
- 4.) job losses resulting from the increase are likely to be minimal.

We conclude that the increase in the minimum wage, for both directly and indirectly impacted workers, will result in million's of dollars in increased wages paid to low-income working individuals and families. This increased income will result in increased consumption that can ripple through Kentucky's economy encouraging the creation and retention of jobs as well as increased sales tax receipts.

The full implementation of the "Fair Minimum Wage Act of 2007" will prove to benefit Kentucky's low-income working families and boost Kentucky's economy as a whole.

## ENDNOTES

---

<sup>1</sup> KYA calculations based on a 40-hour work week for 50 weeks.

<sup>2</sup> Furman, Jason and Sharon Parrott (2007). "A \$7.25 Minimum Wage Would be a Useful Step in Helping Working Families Escape Poverty" Center on Budget and Policy Priorities. Available <http://www.cbpp.org/cms/?fa=view&id=1027>. Accessed June 2009.

<sup>3</sup> Aaronson, Daniel, Sumit Agarwal, and Eric French (2008). "The Spending and Debt Response to Minimum Wage Hikes." Federal Reserve Bank of Chicago. Available [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1144222](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1144222). Accessed June 2009.

<sup>4</sup> Furman and Parrott.

<sup>5</sup> EPI (2008). "EPI Issue Guide: Minimum Wage." Available [http://epi.3cdn.net/1010456170680f8fc7\\_lem6b99v9.pdf](http://epi.3cdn.net/1010456170680f8fc7_lem6b99v9.pdf). Accessed June 2009.

<sup>6</sup> Owens, Antoniya (2007). "The potential economic impact of increasing the minimum wage in New Hampshire." New England Public Policy Center. Available <http://www.bos.frb.org/economic/neppc/dp/2007/neppcdp0702.pdf>. Accessed June 2009.

<sup>7</sup> Bernstein, Jared, Heidi Hartmann, and John Schmitt (1999) "The Minimum Wage Increase: A Working Woman's Issue." Economic Policy Institute. Available [http://www.epi.org/publications/entry/issuebriefs\\_ib133/](http://www.epi.org/publications/entry/issuebriefs_ib133/). Accessed June 2009.

<sup>8</sup> Saas, Darcy (2007). "Memorandum: Economic impact of the Proposed Increase in the New Hampshire Minimum Wage." New England Public Policy Center. Available <http://www.bos.frb.org/economic/neppc/memos/2007/owens042007.pdf>. Accessed June 2009.

This report is funded by the Annie E. Casey Foundation, the Open Society Institute, and the Stoneman Family Foundation. The contents of this report are the sole responsibility of KYA and do not necessarily reflect the opinions of our funders.