KENTUCKY CENTER for ECONOMIC POLICY

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Increasing Kentucky's Minimum Wage Would Help One in Four Workers Make Ends Meet

Wages for Kentucky workers at the bottom of the income scale have been eroding, leading to growing inequality and contributing to persistent poverty in the state. The decline in the real value of the minimum wage has been a major contributor to this erosion. Fixing the wage floor so that more Kentuckians make decent wages would stimulate consumer spending and strengthen communities by allowing families to better meet their basic needs.

Increasing the state's minimum wage to $10.10 an hour, as proposed in House Bill 2 in the 2015 Kentucky General Assembly, would lift the wages of one in four Kentucky workers. It would also benefit more than one in five of the state's children by increasing the earnings of at least one of their parents.[1] Contrary to stereotypes depicting teenagers working for spending money, a large majority of low-wage workers who would benefit from the increase are adults whose incomes are indispensable to their households, and a majority work full time. Furthermore, the common claim that the minimum wage should not be increased because doing so would lead to a sizeable decrease in employment is not supported by the weight of economic research.

Kentucky General Assembly Minimum Wage Bill: House Bill 2

The lack of federal action to adequately lift the minimum wage and resulting erosion in its real value have led 29 states and the District of Columbia—including the majority of Kentucky's surrounding states—to increase their minimum wages above the federal level.[2] Cities are also beginning to take action to raise their minimum wages with Louisville becoming the first city in the South to do so in December. However, Kentucky's minimum wage continues to mirror the federal minimum wage of $7.25 an hour, where it has been since 2009.

House Bill 2 in the 2015 Kentucky General Assembly, sponsored by Speaker Greg Stumbo, would raise the minimum wage to $10.10 per hour by 2017 in three annual increments of $0.95.[3]

Wage Erosion: Today's Minimum Wage is a Poverty Wage

The federal and state government have allowed the real value of the minimum wage to erode by not adjusting it to keep up with inflation. The minimum wage has lost more than 25 percent of its value in inflation-adjusted terms from its peak in 1968. Increasing the minimum wage to $10.10 by 2017 would allow it to make up this lost ground.

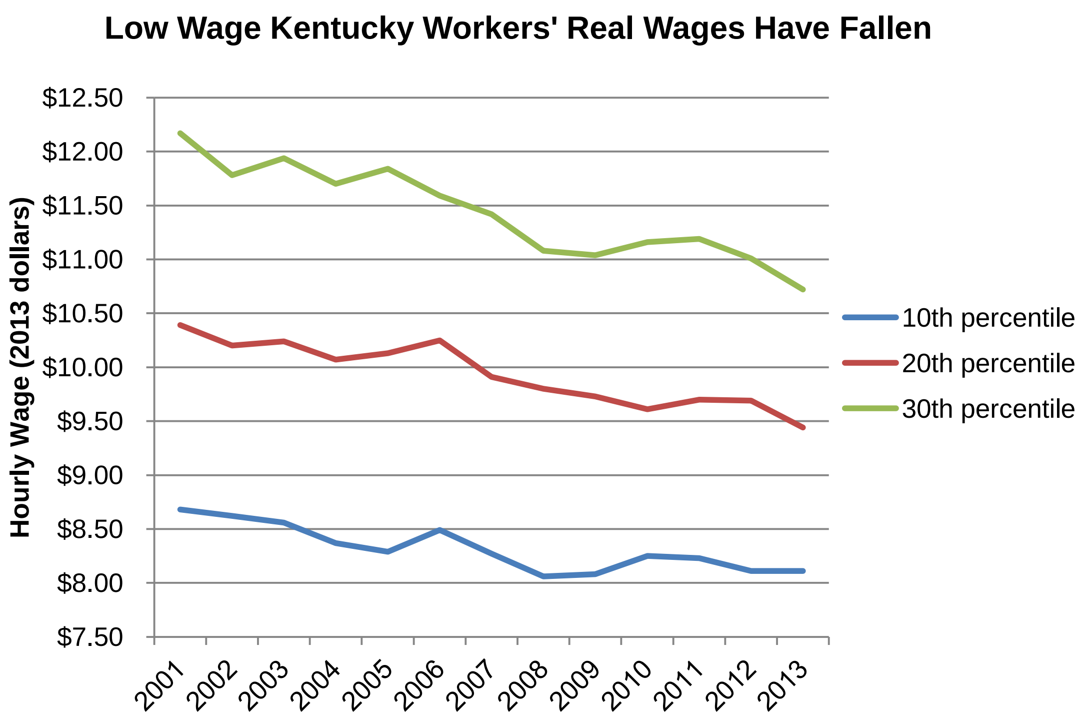
Not only has the minimum wage lagged behind inflation, but it has also failed to keep up with growth in the economy. Had the minimum wage grown along with worker productivity since 1968, its value today would be $18.42, which is 254 percent of the current $7.25 per hour.[4]

The minimum wage is also inadequate relative to what it really takes to meet families' basic needs. The Economic Policy Institute has produced estimates of the income needed to provide a "secure yet modest" standard of living in localities across the United States, meaning enough income to afford housing, food, child care, transportation, health care, other necessities and taxes. That study found that a family of three in localities across Kentucky needs upwards of $50,000 a year to make ends meet. But a full-time, year-round minimum wage worker makes only $15,080.[5]

The value of the **tipped minimum wage** has declined as well, from at least 50 percent of the federal minimum wage between 1966 and 1996 to just 30 percent of the full wage, or $2.13 per hour, today. While employers are supposed to make up any difference between tips and the full minimum wage, wage abuse is not uncommon. Nationally, the poverty rate for tipped workers is nearly twice as high as for non-tipped workers.

Sylvia Allegretto and David Cooper, "Twenty-Three Years and Still Waiting for Change: Why It's Time to Give Tipped Workers the Regular Minimum Wage," Economic Policy Institute, July 10, 2014.

The eroding value of the minimum wage contributes to the downward trend in wages for many workers.[6] Once inflation is taken into account, wages for Kentucky workers have fallen by 7 percent since 2001 at the 10th percentile, 9 percent at the 20th percentile and 12 percent at the 30th percentile (see graph). Minimum wage erosion contributes not just to poverty, but to income inequality as well. Nationally, more than half of the growth in the wage gap between workers at the median and the 10th percentile is due to erosion in the real value of the minimum wage.[7] And in Kentucky between the late 1970s and mid 2000s, income inequality grew between the top fifth and bottom fifth of the income scale by more than it grew in all but three other states.[8]



Source: Economic Policy Institute analysis of Current Population Survey data.

Wage erosion makes it harder for Kentucky's low-income workers to make ends meet. For instance, 46 percent of Kentucky's fast food workers are paid so poorly that they are eligible for public assistance programs.[9] According to the Economic Policy Institute, the share of Kentucky workers making wages below the poverty line for a family of four grew from 25.7 to 33.3 percent between 2001 and 2013.[10]

Low Wage Workers are Adults with Responsibility

25.8 percent, or about one in four Kentucky workers, would be affected by raising the minimum wage from $7.25 to $10.10.[11] That's 462,000 individuals—304,000 of whom make less than the proposed new minimum wage, and another 158,000 making at or just above the new minimum wage who are likely to receive a small increase as pay scales are adjusted upward.

Those who would gain from the proposed minimum wage increase are typically adults whose income matters to household finances and family well-being:[12]

- 88.3 percent of affected workers are at least 20 years old, and more than half are at least 30 years old.
- A larger share of affected workers are older than 55 (11.7 percent) than are teenagers (11.3 percent).
- More than half work full time, and another third work at least 20 hours a week.
- One in four workers is the only provider of family income.
- On average, affected workers earn 55.0 percent of family income; the parents among them earn 64.3 percent.
- More than half of Kentucky families making less than $20,000 would benefit.
- About one third of the state's single parents would be affected.
- 22.4 percent or 228,000 of Kentucky's children have at least one parent who would be affected by the increase; Kentucky is one of twelve states where more than one in five children would benefit.
- 36.6 percent of affected workers have had some college and another 7.1 percent have a bachelor's degree or higher. Only 16.5 percent have less than a high school degree.

Because women account for a disproportionate share of the state's low-wage workforce, raising the minimum wage would also shrink the gender wage gap.[13] Although they make up 49.6 percent of the state's workforce, women account for 55.2 percent of those who would be affected by the raising the minimum wage to $10.10.

Reasonable Minimum Wage Increases Have Little or No Effect on Employment Levels

Those in favor of holding down compensation frequently argue that raising the minimum wage would lead to a decrease in the total number of jobs available. But a rigorous, vast and growing body of economic research indicates that reasonable increases in the minimum wage, as proposed in this legislation, have little or no effect on employment.[14]

For instance:

- An analysis of 64 minimum wage studies containing 1,500 estimates of the impact of minimum wage increases found that the bulk of the estimates clustered around zero or near-zero employment effects, and concluded that "if there is some adverse employment effect from minimum wage raises, it must be of a small and policy-irrelevant magnitude."[15]
- A new book that surveys the research on minimum wage increases states: "it appears that if negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States."[16]
- A statement signed by 600 economists, including seven Nobel Prize winners and eight former Presidents of the American Economic Association, said that "in recent years there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no negative effect on the employment of minimum wage workers, even during times of weakness in the labor market."[17]

In a 2013 review of the literature on the effect of minimum wage on employment, economist John Schmitt of the Center for Economic and Policy Research points to a range of mechanisms by which employers adjust to a higher minimum wage and prevent job loss.[18] Instead of decreasing employment, employers may find savings through "channels of adjustment" such as decreased turnover, improvements in organizational efficiency, increased effort by better-paid workers, lower wages at the top, reductions in profit, minor price increases and the boost to demand that results when low-wage workers have more money to spend.

Lack of consumer demand has been a big factor limiting new hires since the Great Recession. While recent falling gas prices and strong job growth are significant countertrends putting money in workers' pockets, wage growth is necessary to accelerating the recovery. For that reason, an increase in the minimum wage could have a net positive employment effect as workers spend their additional earnings. A 2013 study by the Economic Policy Institute estimates that increasing the minimum wage by $10.10 over three years would raise Kentucky's GDP by $421 million cumulatively and have a small, positive net effect on employment by creating 1,400 jobs in the state.[19]

Conclusion

Kentucky cannot sustain its communities and economy on jobs that pay poverty wages. The General Assembly has the opportunity and the responsibility to move the state forward by raising the state's minimum wage. Without reducing employment prospects for Kentucky's low-wage workers, an increase in the minimum wage would significantly boost low-wage workers' earnings, their quality of life and economic security. The increase would especially benefit women and over one-fifth of the state's children. It's time for Kentucky to join the growing ranks of states providing a much-needed raise to its many low-wage workers.

The Kentucky Center for Economic Policy is a non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED) and is a member of the Working Poor Families Project, a national initiative funded by the Annie E. Casey, Ford, Joyce and Kresge foundations that advances state policies in the areas of education and skills training for adults; economic development; and income and work supports. Visit KCEP's website at www.kypolicy.org.

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2 United States Department of Labor, "Minimum Wage Laws in the States – January 1, 2015," Wage and Hour Division, http://www.dol.gov/whd/minwage/america.htm#Consolidated. See also Anna Baumann, "Kentucky Workers Left Behind as the Majority of States Lift the Wage Floor," Kentucky Center for Economic Policy, January 9, 2014, http://kypolicy.org/kentucky-workers-left-behind-majority-states-lift-wage-floor/.
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10 Economic Policy Institute analysis of Current Population Survey data.
11 David Cooper, "Raising the Minimum Wage to $10.10."
12 David Cooper, "Raising the Minimum Wage to $10.10."
13 David Cooper, "Raising the Minimum Wage to $10.10."
14 Jared Bernstein and Sharron Parrott, "Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment," Center on Budget and Policy Priorities, January 2014, http://www.cbpp.org/cms/index.cfm?fa=view&id=4075. In 2014, Kentucky's Legislative Research Commission produced a minimum wage memo estimating that job losses associated with an increase to $10.10 could be as high as 13,800. The estimate was based on an assumed employment effect of -1% for a 10% increase in the minimum wage—a figure gleaned from a study written in 1999 which precedes 15 years of further research on the

matter. Yet even then, the study strongly suggested that the true employment effect may be closer to zero, and in fact that "zero is often hard to reject." Charles Brown, "Minimum Wages, Employment, and the Distribution of Income," *Handbook of Labor Economics* (1999 v. 3), pp. 2101-2163, http://klazar.files.wordpress.com/2010/10/99_brown_mm.pdf.

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[18] John Schmitt, "Why Does the Minimum Wage Have No Discernible Effect on Employment?," Center for Economic and Policy Research, February 2013, http://www.cepr.net/documents/publications/min-wage-2013-02.pdf.

[19] David Cooper, "Raising the Minimum Wage to $10.10." These estimates do not distinguish the boost that will come from Louisville's minimum wage increase.