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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 higher poverty and inequality in the state. The decline in the real value of the minimum wage—for tipped and non-tipped workers—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 legislation in the 2014 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 defense that the minimum wage should not be increased because doing so would lead to a decrease in employment is not supported by economic research.

Kentucky General Assembly Minimum Wage Bills: House Bill 1 and House Bill 191

The lack of federal action to adequately lift the minimum wage and resulting erosion in the real value of the wage has led 21 states and the District of Columbia to increase their minimum wages above the federal level.[2] However, Kentucky's minimum wage continues to mirror the federal minimum wage of $7.25 an hour, where it has been since 2009. The federal and state minimum wage for tipped workers has been just $2.13 since 1991.

Two bills in the 2014 Kentucky General Assembly would increase the state's minimum wage. House Bill 1, sponsored by Speaker Greg Stumbo, would raise the minimum wage to $10.10 per hour by 2016 in three annual increments of $0.95.[3] House Bill 191, sponsored by Representative Will Coursey, would immediately increase the minimum wage for tipped workers to $3.00 and then by $0.95 per year until it reaches 70 percent of the full minimum wage.[4] In combination, these two bills would have close to the same effect as the Fair Minimum Wage Act currently in Congress.[5]

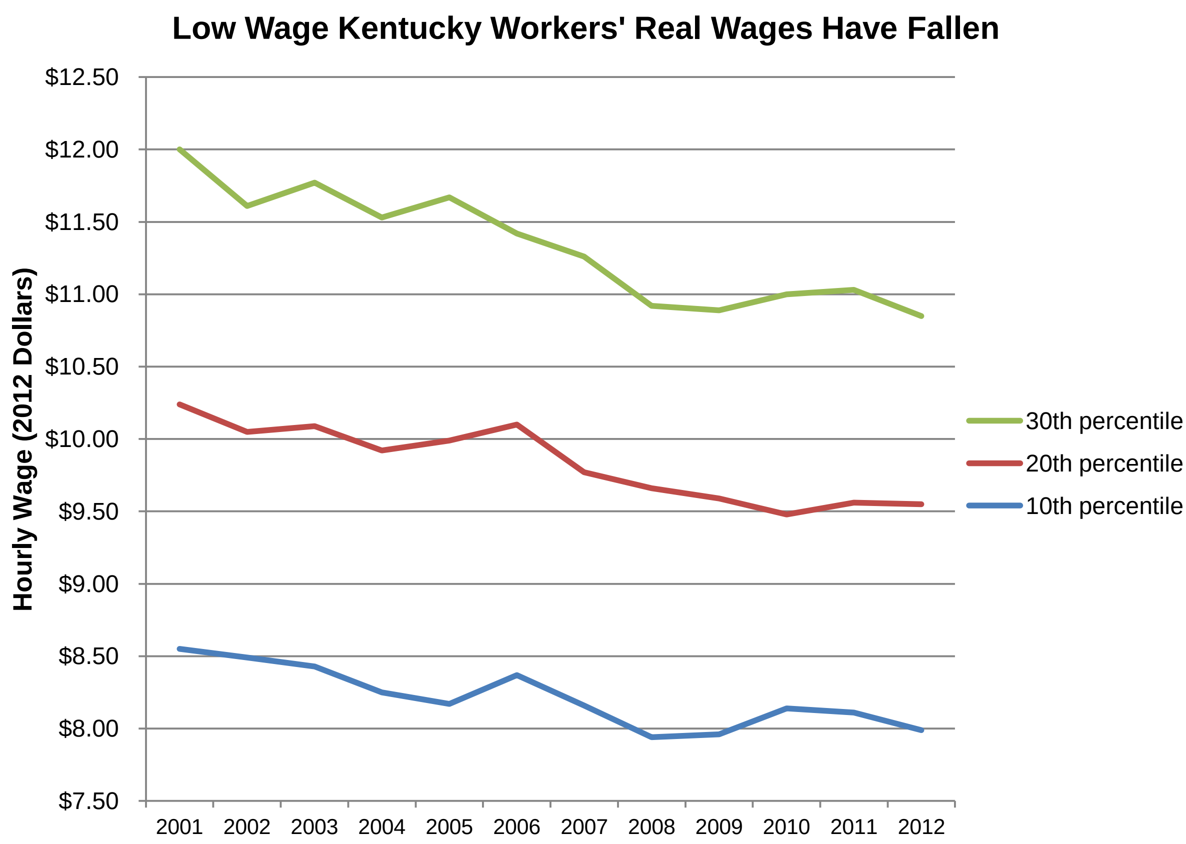
Wage Erosion: Today's Minimum Wage is a Poverty Wage

Increasing the minimum wage to $10.10 by 2016 would return it to approximately its inflation-adjusted, 1968 peak. That makes the wage high enough for one full-time worker to keep a family of three out of poverty.[6] Currently, erosion in the value of the minimum wage has made it insufficient to keep a family of two with one full-time worker out of poverty.

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 productivity since 1968, its value today would be $18.30, which is 252.4 percent of the current $7.25 per hour[7].

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.[8] The difference between the tipped and full minimum wage—$5.12—is theoretically made up by customers' tips, which amount to a subsidy for employers that is more than twice what employers pay to the tipped workers (waiters, hairstylists and bartenders, for instance). When employees' tips plus wages do not add up to the full minimum wage, employers are legally required to compensate for the difference, but enforcement is rare. As a result, tipped-minimum wage workers—more than 70 percent of whom are women—experience higher levels of poverty and inequality than non-tipped workers. Nationally, the poverty rate for tipped workers is more than twice as high as for non-tipped workers, and waiters are almost three times as likely to fall below the poverty line.[9]

The eroding value of the minimum wage contributes to the downward trend in wages for many workers.[10] Once inflation is taken into account, wages for Kentucky workers have fallen by 6.5 percent since 2001 at the 10th percentile, 6.7 percent at the 20th percentile and 9.6 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.[11] 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.[12]



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

Wage erosion makes it harder for Kentucky's low- and middle-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.[13] 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 32.7 percent between 2001 and 2012.[14]

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.[15] 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 would see their earnings increase as pay scales are adjusted upward. Indexing the wage to inflation would preserve its purchasing power into the future.

Those who would gain from the proposed minimum wage increases and who would be better able to afford the basics are typically adults whose income matters to household finances and family well-being:[16]

- 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.[17] 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.

Modest 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.[18]

Economist John Schmitt at the Center for Economic and Policy Research authored a recent overview of the extensive literature on the effect of minimum wage on employment.[19] He concludes that "the minimum wage has little or no discernible effect on the employment prospects of low-wage workers" and points to a range of mechanisms by which employers adjust to a higher minimum wage and prevent job loss. 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.[20]

Under current economic conditions, in which a lack of consumer demand is a big factor limiting hiring of workers, an increase in the minimum wage could have a net positive employment effect as workers spend their additional earnings. A recent 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.[21]

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. Kentucky can be a leader among states in providing its hardworking people with the decent wages they deserve.

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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[1] David Cooper, "Raising the Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost," Economic Policy Institute, December 19, 2013, http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/.
[2] United States Department of Labor, "Minimum Wage Laws in the States – January 1, 2014," Wage and Hour Division, http://www.dol.gov/whd/minwage/america.htm#Consolidated.
[3] House Bill 1, Kentucky House of Representatives, Janunary 2014 http://www.lrc.ky.gov/record/14RS/HB1.htm.
[4] House Bill 191, Kentucky House of Representatives, January 2014, http://www.lrc.ky.gov/record/14RS/HB191.htm.
[5] H. R. 1010, "Fair Minimum Wage Act of 2013," 113th Congress, https://www.govtrack.us/congress/bills/113/hr1010/text. One difference is that the Fair Minimum Wage Act would adjust the minimum wage for inflation in years thereafter so its value does not continue to erode; HB 1 and HB 191 do not include an inflation adjustment for subsequent years.
[6] David Cooper, "Raising the Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost," Economic Policy Institute, December 19, 2013, http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/.
[7] David Cooper, "Raising the Minimum Wage to $10.10."
[8] Sylvia Allegretto and Kai Filion, "Waiting for Change: The $2.13 Federal Subminimum Wage," Economic Policy Institute, February 23, 2011, http://epi.3cdn.net/9f96b520034e8a6621_dom6i2alu.pdf
[9] Sylvia Allegretto and Kai Filion, "Waiting for Change."
[10] Jason Bailey, "Another Bad Year for Kentucky Wages," Kentucky Center for Economic Policy, August 2013, http://www.kypolicy.us/another-bad-year-kentucky-workers-wages.
[11] Lawrence Mishel, "The Tight Link Between the Minimum Wage and Wage Inequality," Economic Policy Institute, January 27, 2014, http://www.epi.org/blog/tight-link-minimum-wage-wage-inequality/.
[12] Elizabeth McNichol, Douglas Hall, et al, "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities, November 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3860.
[13] Jason Bailey, "Kentucky Fast Food Workers Struggle with Low Wages While Industry Does Well," Kentucky Center for Economic Policy, October 2013, http://kypolicy.org/kentucky-fast-food-workers-struggle-low-wages-industry-well/.
[14] Economic Policy Institute analysis of Current Population Survey data.
[15] David Cooper, "Raising the Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost."
[16] David Cooper, "Raising the Minimum Wage to $10.10."
[17] David Cooper, "Raising the Minimum Wage to $10.10."
[18] 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.
[19] 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.
[20] In addition, the share of the workforce made up of tipped workers is consistent across the country, even in states with a tipped minimum wage equal to the regular minimum wage. This fact suggests that a higher minimum wage for tipped workers is not associated with fewer employment opportunities. Sylvia Allegretto and Kai Filion, "Waiting for Change."
[21] David Cooper, "Raising the Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost."