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Who Stands to Benefit from a Minimum Wage Increase in Lexington

By Jason Bailey

The Lexington-Fayette Urban County Council is considering a proposal to raise the local minimum wage. New Kentucky Center for Economic Policy (KCEP) analysis of Census data shows that an increase to \$10.10 an hour, along with an increase in the separate minimum wage for tipped workers, would directly lift the wages of an estimated 20 percent of those who work in Lexington/Fayette County, or 31,300 workers. The minimum wage increase would provide relief from stagnant or declining wages for many workers on the bottom, and is supported by an extensive body of research suggesting little to no harm to employment.

Workers Benefitting Are Overwhelmingly Adults, and Most are Women and Full-Time Workers

The attached table provides a detailed breakdown of who would benefit from the proposed increase. Total potential beneficiaries include 41,000 workers, 31,300 who make less than \$10.10 an hour and 9,700 who make slightly above the new minimum wage but could also see an increase as wage scales at the bottom are adjusted upward (see “Note on Methods” below).

Contrary to stereotypes, the workers who would benefit from the increase are overwhelmingly adults. Ninety percent of direct beneficiaries (those whose wages are currently below \$10.10) are at least 20 years old. In fact, there are more workers over the age of 50 who would benefit (making up 14 percent of those directly affected) than there are teenagers.

Those who would benefit most commonly work in retail stores (19 percent of the total number of workers directly affected), restaurants and food services (19 percent), and health and educational services (7 percent each). Fifty-six percent of workers in hotels, motels and other accommodation services would benefit, and 50 percent of restaurant and food service workers. Fifty-four percent of those directly benefitting work full time (at least 35 hours a week), with the remainder working part time.

Fifty-seven percent of workers who would benefit directly are women. Seventy-three percent are white, and 15 percent African American. These workers have a range of education levels. Eighteen percent are not high school graduates, 33 percent have just a high school degree, 35 percent have some college and 15 percent have four years or more of college.

Seventy-six percent of workers with family incomes below the poverty line would benefit from the increase. Twenty-six percent of workers benefitting have a child in the household.

Workers' Wages Have Been Stagnant or Declining and Are Inadequate to Make Ends Meet

A substantial number of workers in Lexington stand to gain in part because wages for many have been stagnant or declining in recent years. Median annual earnings for workers living in Fayette County were only \$25,359 in 2013, substantially less than they were in 2007 after adjusting for inflation.¹ Wage stagnation and decline has been going on for more than a decade in Kentucky and the nation as a whole. In fact, the late 1990s were the only period in the last 35 years in which Kentucky and U.S. workers saw real wage growth at the middle and the bottom of the wage distribution.²

The erosion in the value of the minimum wage is a big cause of this decline for workers at the bottom. The minimum wage has lost more than 25 percent of its value in inflation-adjusted terms from its peak in 1968. If it had kept up with average workers' wages over that time period, it would be \$10.65 in 2013, and if it had kept up with the growth in productivity since then it would be \$18.30.³ According to a recent report, the erosion of the minimum wage since the 1970s explains about two-thirds of the growing gap between low- and middle-wage workers.⁴

The minimum wage is also inadequate relative to what it takes to meet families' basic needs. The Economic Policy Institute has produced estimates of the income needed in localities across the United States to provide a "secure yet modest" standard of living, meaning enough income to afford housing, food, child care, transportation, health care, other necessities and taxes. That study found that a family of four in Lexington with two parents and two children needed \$62,982 in 2013, while a family with one parent and one child needed \$43,368. But a full-time, year-round minimum wage worker makes only \$15,080.⁵

Tipped workers also have difficulty making ends meet, in large part because the tipped minimum wage of \$2.13 an hour has not been increased since 1991. While it was previously set at 50 percent of the regular minimum wage, it is now only 30 percent. Tipped workers are twice as likely to fall under the poverty line as all workers, and waiters are almost three times more likely. Because of their low wages, 46 percent of tipped workers and their families rely on public assistance to make ends meet.⁶

Because the federal government has not taken action to keep the minimum wage up to date, states and localities across the country are doing so. Twenty-nine states plus DC either have a higher minimum wage than the federal minimum of \$7.25 or are phasing in a higher minimum wage; 21 cities and counties now have minimum wages higher than their state minimum; and 31 states plus DC have a higher tipped minimum than Kentucky's \$2.13 (in eight of those states, the tipped minimum is equal to the regular minimum wage).⁷

Research Suggests that Minimum Wage Increases Have Little to No Harmful Effect on Employment

Claims that increases in the minimum wage will eliminate a large number of jobs are not supported by the substantial body of research on this question. The minimum wage is one of the most extensively-studied topics in economics, and the conclusion of a vast body of evidence is that modest increases have little to no effect on employment.

This research can be summarized as follows:

- 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."⁸
- A new book that reviews the literature on the minimum wage 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."⁹
- 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."¹⁰

Particularly relevant to the question of a Lexington ordinance is the research on local minimum wage increases. While that literature is somewhat limited because only 21 cities and counties have passed minimum wage increases—19 of them in the last three years—the credible research that has been done to date suggests that increases do not harm employment. Rigorous studies of laws in San Francisco and Santa Fe find no statistically significant negative effects on jobs or hours worked, including in low-wage industries like restaurants.¹¹

Also, studies that compare adjacent counties across state borders after one state raises its minimum wage are highly relevant to city ordinances, and they also find little or no harm to employment from an increase. An influential 1994 study that has helped shape current thinking about the issue found that a minimum wage increase in New Jersey had no harmful effect on fast food employment in that state compared to counties in neighboring Pennsylvania, which had not increased its minimum wage.¹² A recent follow-up study applied that methodology to 288 bordering counties in states with different minimum wages between 1990 and 2006, and the study found “no adverse employment effects” from an increase in the minimum wage.¹³

Researchers have identified a number of mechanisms of adjustment that explain the lack of a harmful impact on employment from minimum wage increases. According to a recent literature review, the most important such channels are the cost savings and improved productivity from a reduction in labor turnover (in a recent year, 37 percent of food service and hotel workers quit their jobs), improvements in organizational efficiency, reductions in wages of high earners and minor price increases.¹⁴

Similarly, there is no discernible evidence that a higher tipped minimum wage harms jobs; states with a tipped minimum wage equal to the regular minimum wage do not have a smaller percentage of the workforce made up of tipped workers than states like Kentucky where the tipped minimum is just \$2.13.¹⁵

Note on Methods

KCEP’s estimates of the impact of a minimum wage increase in Lexington/Fayette County are based on analysis of 2013 American Community Survey data drawing on methods developed by the Institute for Research on Labor and Employment at the University of California, Berkeley and the Economic Policy Institute.¹⁶ The analysis is based on persons ages 16-64 who work in Lexington/Fayette County. Hourly wage estimates are calculated from reported annual labor earnings, hours worked per week and number of weeks worked per year. To help address reporting error in these figures, the analysis excludes cases where the resulting hourly wage is less than half of the statutory minimum wage in 2013. Wages were inflated to 2017 dollars (when the proposed ordinance would take full effect) using the average of annual CPI-U for the last ten years in the closest regional market reported by the Bureau of Labor Statistics. Indirectly affected workers are assumed to be those making between \$10.10 and \$11.50 an hour, slightly less than the most common ripple effect of 15 percent above the new wage for state and federal minimum wage increases from 1983 to 2002 identified by Wicks-Lim.¹⁷ Estimates of workers in the accompanying table are rounded to the nearest hundred.

The Kentucky Center for Economic Policy is a non-profit, 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). For more information, please visit KCEP’s website at www.kypolicy.org.

¹ In 2007, median annual earnings in Lexington/Fayette County were \$30,086 in 2013 dollars. Data is from the American Community Survey 1-year estimates; difference between the two years is statistically significant.

² Jason Bailey, et al., “The State of Working Kentucky 2014,” Kentucky Center for Economic Policy, August 2014, <http://kypolicy.org/dash/wp-content/uploads/2014/08/State-of-Working-KY-2014-final.pdf>. Josh Bivens, et al., “Raising America’s Pay: Why It’s Our Central Economic Policy Challenge,” Economic Policy Institute, June 4, 2014, <http://www.epi.org/publication/raising-americas-pay/>.

³ David Cooper, “Raising the Federal Minimum Wage 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/>.

⁴ Bivens, "Raising America's Pay."

⁵ Economic Policy Institute, Family Budget Calculator, <http://www.epi.org/resources/budget/>.

⁶ Sylvia A. 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 and University of California Berkeley Institute for Research on Labor and Employment, July 10, 2014, <http://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/>.

⁷ National Employment Law Project, "City Minimum Wage Laws: Recent Trends and Economic Evidence on Local Minimum Wages," December 2014, <http://www.nelp.org/page/-/rtmw/City-Minimum-Wage-Laws-Recent-Trends-Economic-Evidence.pdf?nocdn=1>.

⁸ National Conference of State Legislatures, "2014 Minimum Wage by State," September 17, 2014, <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>. Michael Reich, et al., "The Mayor of Los Angeles' Proposed City Minimum Wage Law: A Prospective Impact Study," University of California Berkeley Institute for Research on Labor and Employment, September 2014, <http://irle.berkeley.edu/cwed/briefs/2014-05.pdf>. Allegretto and Cooper, "Twenty-Three Years and Still Waiting for Change."

⁹ Chris Doucouliagos and T. D. Stanley, "Publication Selection Bias in Minimum Wage Research? A Meta-Regression Analysis," *Research Papers in Economics*, October 24, 2008, http://ideas.repec.org/p/dkn/econwp/eco_2008_14.html.

¹⁰ Dale Belman and Paul J. Wolfson, "The New Minimum Wage Research," *Employment Research* (April 2014), pp. 4-5, http://research.upjohn.org/cgi/viewcontent.cgi?article=1220&context=empl_research.

¹¹ Economic Policy Institute, "Economist Statement on the Federal Minimum Wage," <http://www.epi.org/minimum-wage-statement/>.

¹² Literature is reviewed in Michael Reich, et al., "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," University of California Berkeley Institute for Research on Labor and Employment, March 2014.

¹³ David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *The American Economic Review*, September 1994, <http://davidcard.berkeley.edu/papers/njmin-aer.pdf>.

¹⁴ Arindrajit Dube, T. William Lester and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," University of California Berkeley Institute for Research on Labor and Employment, November 2010, <http://www.irle.berkeley.edu/workingpapers/157-07.pdf>.

¹⁵ 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>. Reich, "Local Minimum Wage Laws."

¹⁶ Allegretto and Cooper, "Twenty-Three Years and Still Waiting for Change." Heather Boushey and Sarah Jane Glynn, "There Are Significant Business Costs to Replacing Employees," Center for American Progress, November 16, 2012, <http://cdn.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf>.

¹⁷ Jeremy Welsh-Loveman, Ian Perry and Annette Bernhardt, "Data and Methods for Estimating the Impact of Proposed Local Minimum Wage Laws," University of California Berkeley Institute for Research on Labor and Employment, June 2014, <http://www.irle.berkeley.edu/cwed/briefs/2014-01-data-and-methods.pdf>. Cooper, "Raising the Federal Minimum Wage."

¹⁸ Jeanette Wicks-Lim, "Mandated Wages Floors and the Wage Structure: New Estimates of the Ripple Effects of Minimum Wage Laws," Political Economic Research Institute Working Paper Series, May 2006, <http://www.peri.umass.edu/fileadmin/pdf/WP116.pdf>. 15% above the new minimum wage, which equals \$11.62 an hour, is also the lower bound (most conservative) estimate used in Welsh-Loveman, et al., "Data and Methods for Estimating the Impact of Proposed Local Minimum Wage Laws."

Beneficiaries of Potential Lexington Minimum Wage Increase

Category	Directly affected (\$10.10 or less)	Percentage of the total directly affected	Share of category directly affected	Indirectly affected (\$10.10- \$11.50)
Total	31,300	100%	20%	9,700
Sex				
Female	17,700	57%	22%	4,200
Male	13,700	44%	18%	5,600
Age				
Less than 20	3,000	10%	61%	400
20 to 34	19,000	61%	31%	4,600
35 to 49	5,000	16%	10%	3,200
50+	4,300	14%	10%	1,500
Race				
White	22,700	73%	18%	7,700
African American	4,800	15%	27%	1,300
Other	3,800	12%	37%	700
Education				
Less than high school	5,500	18%	52%	500
High school	10,300	33%	24%	4,100
Some college	10,900	35%	24%	3,000
4+ years college	4,600	15%	8%	2,100
Children in household				
1 child	3,600	12%	13%	1,500
2 or more children	4,400	14%	13%	1,400
No children	23,400	75%	25%	6,900
Family income				
Less than poverty line	11,100	35%	76%	1,100
Between poverty line and twice poverty	11,600	37%	41%	5,100
200%-400% poverty	5,500	18%	10%	2,900
Above 400%	3,200	10%	5%	700
Full-time/Part-time				
Full-Time (35+ hours per week)	16,900	54%	14%	6,300
Part-Time	14,500	46%	42%	3,400
Industry				
Construction	1,400	4%	19%	500
Manufacturing	700	2%	4%	400
Wholesale trade	400	1%	10%	900
Retail trade	6,100	19%	35%	3,200
Transportation and warehousing	1,600	5%	30%	500
Financial, Insurance, Real Estate	500	2%	9%	000
Professional, scientific and management	600	2%	7%	200
Administrative and waste management	1,900	6%	33%	400
Educational services	2,300	7%	13%	600
Health services	2,100	7%	8%	700
Social assistance	1,300	4%	33%	500
Restaurants and food services	5,800	19%	50%	900
Arts, entertainment, recreation	1,100	4%	31%	100
Accommodation	1,000	3%	56%	000
Other	4,700	15%	24%	800

Source: Kentucky Center for Economic Policy analysis of American Community Survey data; see Note on Methods.