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Giving West Virginia's Workers a Raise: Increasing the State Minimum Wage

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Introduction

On April 14, 2013, the West Virginia House adopted HCR 107, expressing support for President Obama's proposal to increase the minimum wage to \$9.00 an hour and index it to inflation, in recognition of the decreasing value of the minimum wage and the idea that no one who works full-time should have to live in poverty.¹

Wages for West Virginia's workers, and in particular low-wage workers, have eroded, not just in recent years, but over the past several decades. As fewer workers have enjoyed the fruits of a growing economy, problems like income inequality and poverty are growing problems in the state.

While there is no one quick fix, raising the minimum wage and adjusting it over time are key to reversing the long-term erosion of low-wage worker's earnings and combating inequality and poverty.

This report calls for an increase the minimum wage by putting the current minimum wage in context to its historic value and other benchmarks. It also provides a demographic overview of who in West Virginia would benefit from an increase in the minimum wage. Finally it examines the evidence for the impact of the minimum wage on employment, and explores some of the reasons why the traditional arguments against raising the minimum wage are largely unsubstantiated.

Key Findings

- The real (inflation adjusted) value of the minimum wage has declined from its peak of \$10.72 in 1968 to \$7.25 today.
- Working full time on the minimum wage is not enough to keep a family of two out of poverty.
- Raising the minimum wage to \$10.10 over the next three years would raise the wages of 191,000 workers in West Virginia, while raising it to \$8.50 next year would benefit 122,145 workers.
- The majority of the beneficiaries of a minimum wage increase are adult, full-time workers who are supporting their families in moderate- to low-income households.
- Recent research shows that raising the minimum wage has little to no impact on employment and prices.

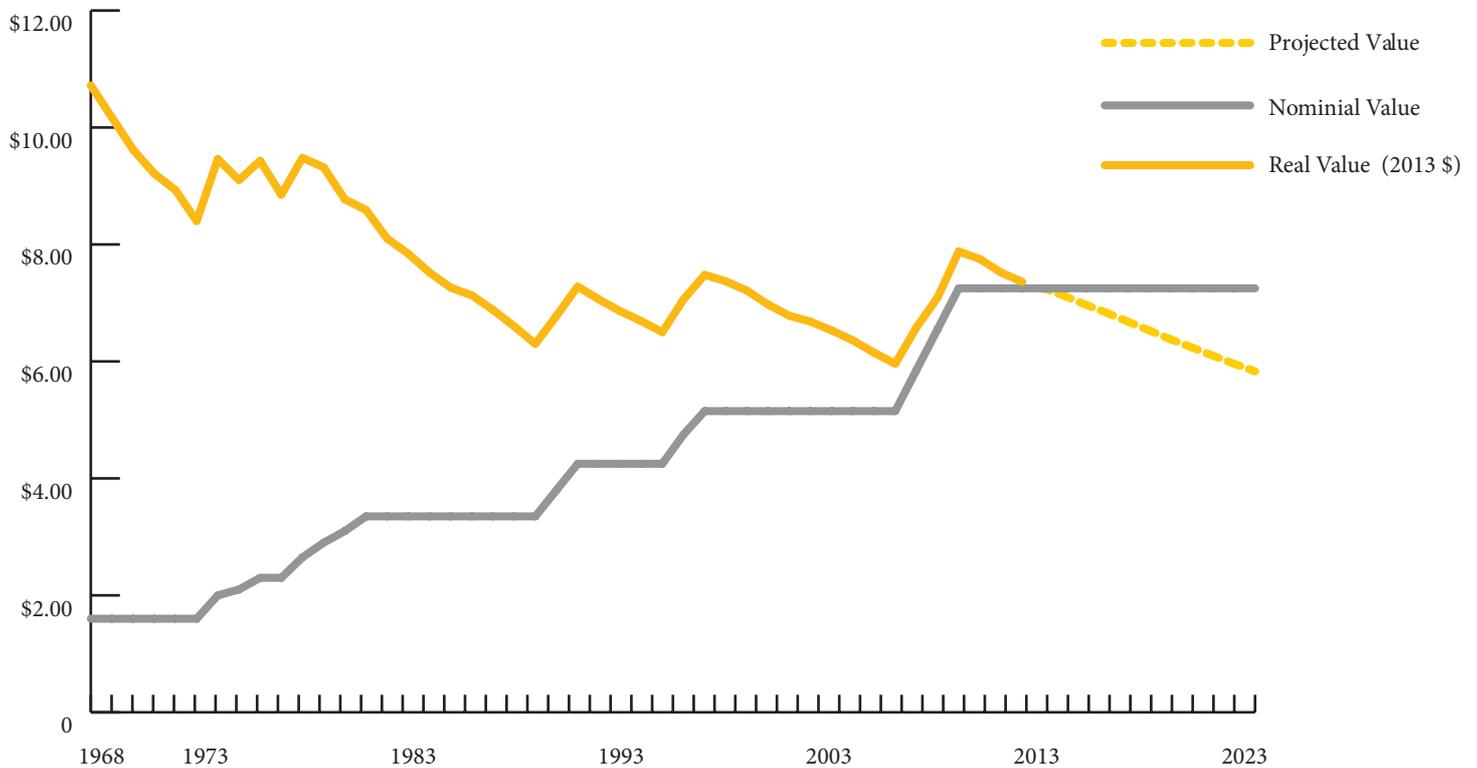
The Minimum Wage in Context

Losing Ground

The minimum wage was raised to its current level of \$7.25/hr in July 2009. But while the minimum wage does not always increase year to year, prices and the cost of living do. As prices rise, the value of the minimum wage erodes. **Figure 1** compares the nominal value of the minimum wage (the rate shown in current-year dollars) to its real value (the rate

adjusted for inflation, in 2013 dollars). While the nominal value of the minimum wage has increased gradually over the past several decades, these increases have not kept up with inflation.

FIGURE 1
Real Value of the Minimum Wage Has Fallen 32 Percent
Nominal and Real Values of the Minimum Wage (Actual 1968-2012, Projected 2013-2023)



Source: U.S. Department of Labor. Real Value calculated using Consumer Price Index for All Consumers (CPI-U). 2013-2023 values based on Congressional Budget Office Projections.

The real value of the minimum wage peaked in 1968, when it was the equivalent of \$10.72/hr today. Since then, the real value of the minimum wage has fallen more than 32 percent, and the current value minimum wage is \$3.47 lower than it was in 1968. To put that difference in context, in 1968 a full-time minimum-wage worker earned about \$22,300 in inflation-adjusted 2013 dollars. Today, a minimum wage worker earns about \$15,000, or about \$7,300 less than he or she would have earned if the minimum wage had kept its value over the past 45 years (**Figure 2**).

The minimum wage would be even higher than \$10.72/hour if it had kept up with worker productivity. From its creation in 1938 until the late 1960s, the minimum wage grew at the same pace as overall productivity growth in the economy. Since then, however, the value of the minimum wage has declined, even as overall productivity grew. If the minimum wage had grown along with productivity since 1968, as it had in the previous thirty years, it would be worth over \$16.00/hour today.²

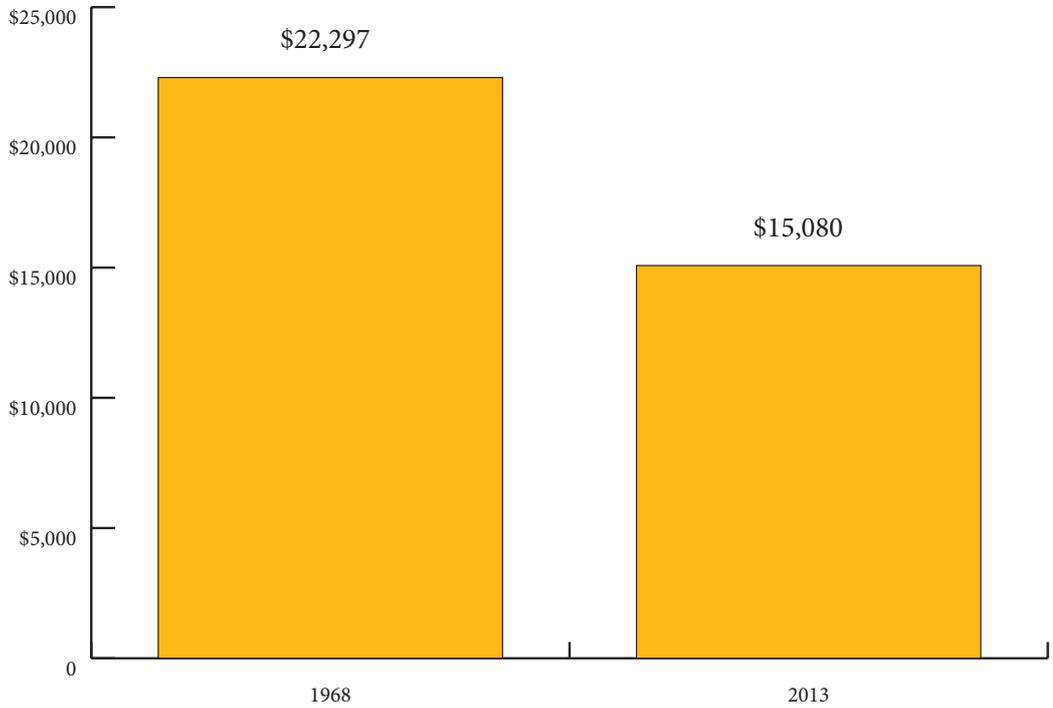
Without any future increases or adjustments to keep pace with inflation, the minimum wage will continue to lose value. Future projections of inflation from the Congressional Budget Office project that the real value of the minimum wage will fall below \$6.00/hr within the next ten years (**Figure 1**).

The Wage Gap

While inflation has eroded away much of the value of the minimum wage, minimum wage workers have also lost ground in comparison to other segments of the labor force. The distance between the minimum wage and the wage of a typical worker in West Virginia has grown over the past two decades.

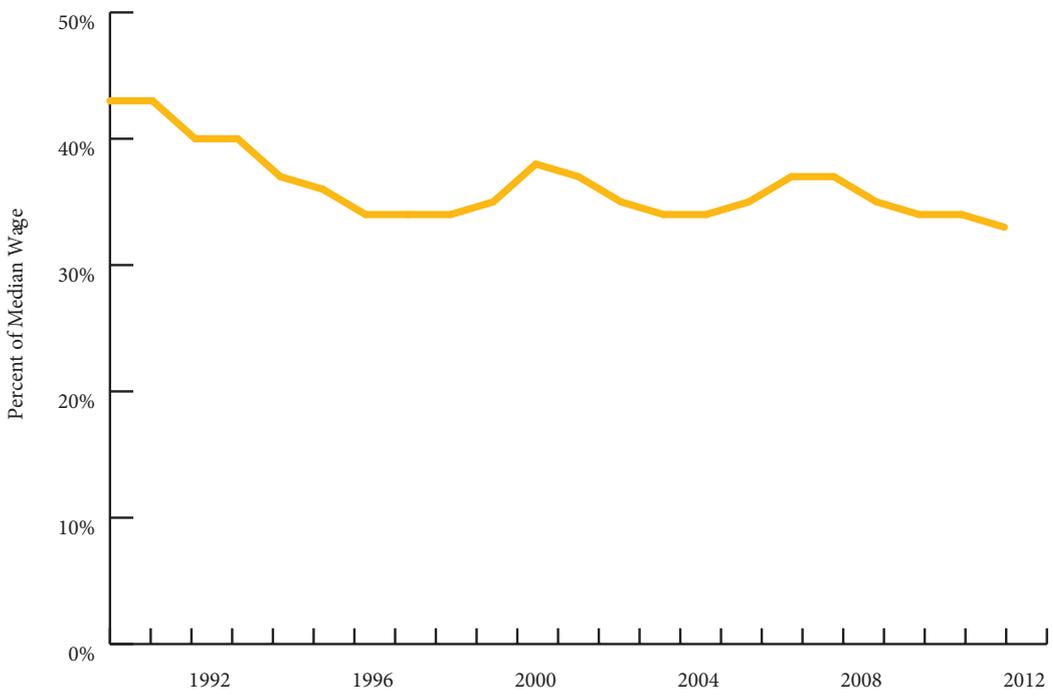
In 1991, the minimum wage of \$3.35 was equal to about 41 percent to West Virginia’s median wage of \$7.85. Since then, the ratio of the minimum wage to the median wage has declined, as minimum-wage workers have fallen behind. In 2012, the ratio stood at 33 percent (**Figure 3**). If the minimum wage had kept pace with the median wage since then it would be over \$10.00 today.

FIGURE 2
 Full-Time Minimum Wage Worker Earns \$7,300 Less Today Than in 1968
 Annual Earnings for a Full-Time Minimum Wage Worker, 1968 and 2013



Source: U.S. Department of Labor, Bureau of Labor Statistics. Real Value calculated using Consumer Price Index for All Consumers (CPI-U). Annual earnings calculated assuming full time worker works 40 hours per week, 52 weeks per year.

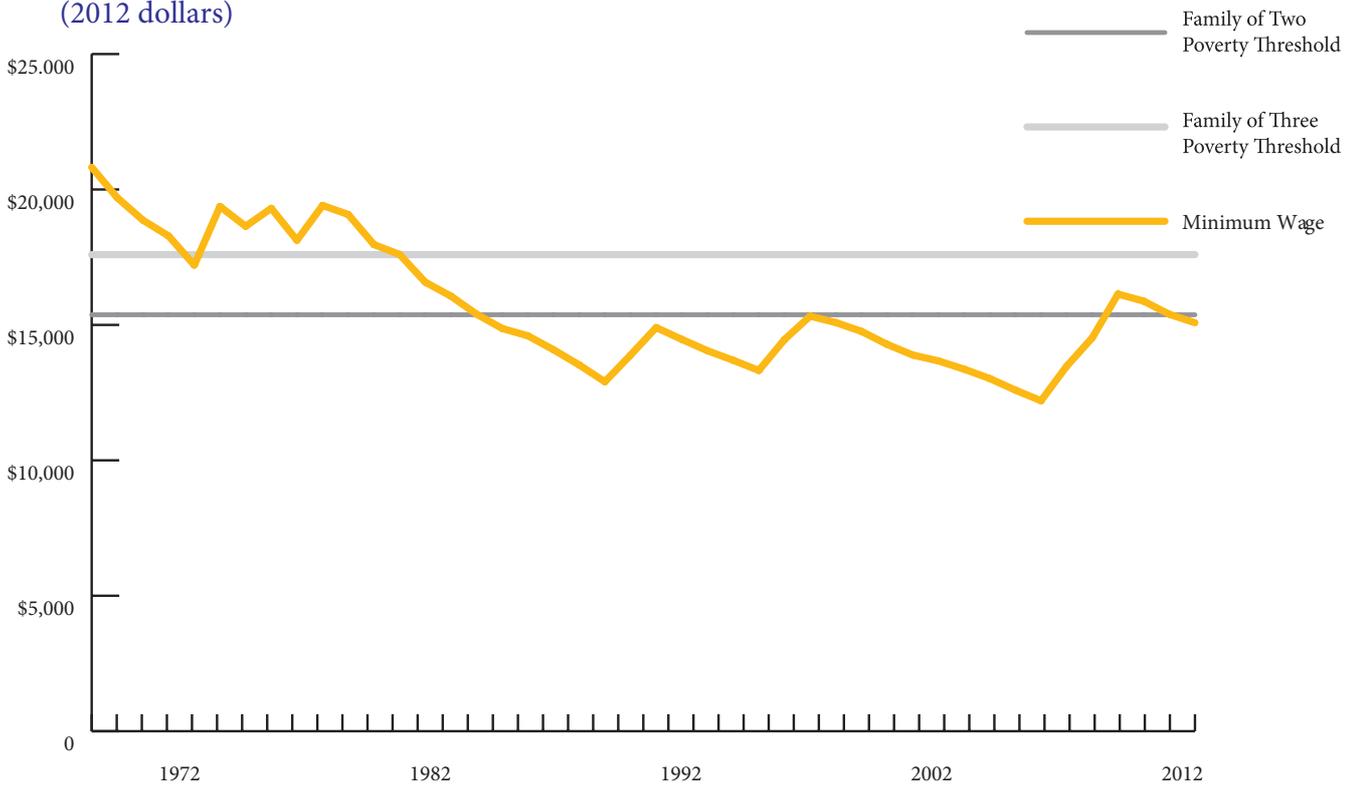
FIGURE 3
 Relative Value of The Minimum Wage Has Fallen Since 1991
 Minimum Wage as a Percent of West Virginia Median Hourly Wage, 1991-2012



Source: U.S. Department of Labor and Economic Policy Institute analysis of Current Population Survey Data.

FIGURE 4

Minimum Wage Not Enough to Stay Out of Poverty
 Annual minimum wage earnings and poverty thresholds for families of two or three, 1968-2012
 (2012 dollars)



Source: WVCBP analysis of U.S. Census Bureau and U.S. Department of Labor data.
 Note: Poverty thresholds are 2012 levels for families of two (one adult and one child) and three (two adults and one child).
 Annual earnings calculated assuming full time worker works 40 hours per week, 52 weeks per year.

The Minimum Wage and Poverty

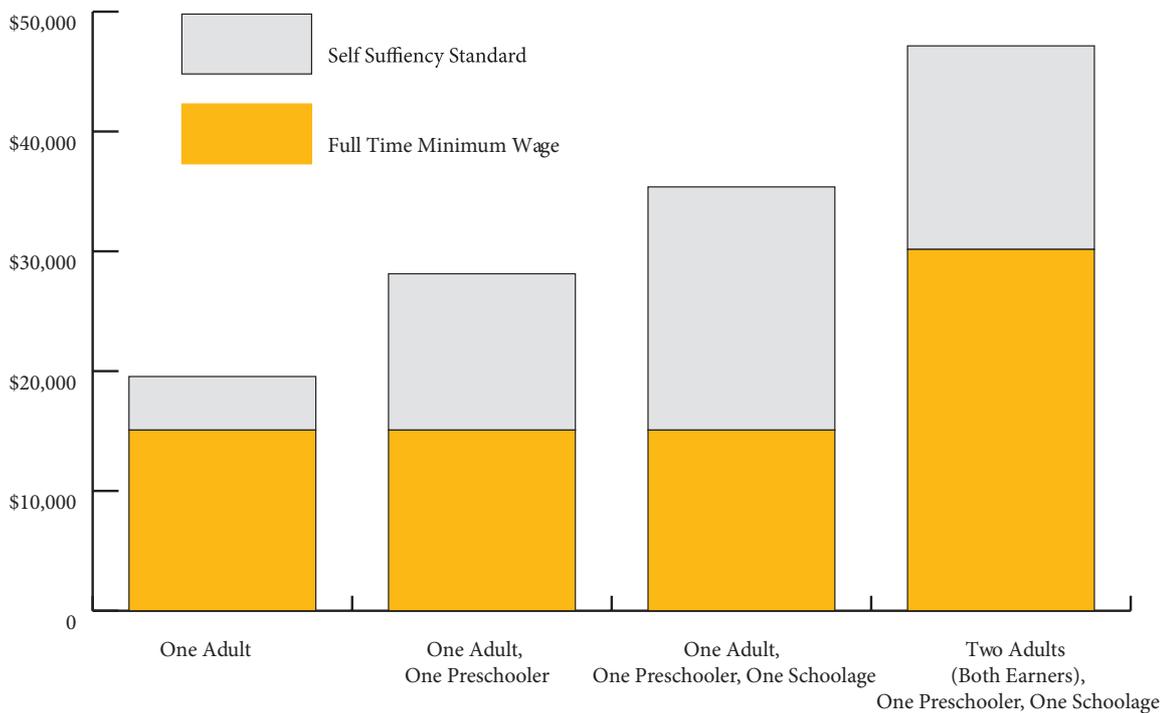
Even working full time, a parent who is a minimum-wage worker does not earn enough to stay out of poverty. However, this was not always the case. **Figure 4** compares the annual earnings of a minimum-wage worker to the federal poverty thresholds for a family of two and three. Until the 1980s, earning the minimum wage was enough to keep the family of a single parent out of poverty. In the late 1960s, earning the minimum wage was enough to lift a three-person family out of poverty. But today, the value of the minimum wage has eroded to the point where it is not enough for single-parent families to meet their basic needs.

Even in a low cost-of-living state like West Virginia, the minimum wage is insufficient to meet most families’ basic needs. The West Virginia Self Sufficiency Standard calculates how much income is needed for certain family types in areas across the state to adequately meet their basic needs without public or private assistance. It includes estimates for housing, child care, food, transportation, health care, and taxes and tax credits for differently sized families throughout the state.³ And, as the standard shows, the minimum wage is not enough to meet one’s basic needs.

As **Figure 5** shows, the current minimum wage of \$7.25 falls well short of meeting the self sufficiency standard of a single adult working full time in Kanawha County. The minimum wage barely meets half of the self sufficiency standard for a single parent, and is not even close to meeting the self sufficiency standard for families with children, even with two parents working full time.

FIGURE 5

Minimum Wage Not Enough to Support a Family in West Virginia
Annual Self Sufficiency Standard and the Full-Time Minimum Wage by Family Type
for Kanawha County, West Virginia, 2013



States Increasing the Minimum Wage

The Fair Minimum Wage Act of 2013, introduced in Congress earlier this year, would increase the federal minimum wage to \$10.10/hour, via three incremental increase of \$0.95/hour, and then index it to inflation. While raising the minimum wage at the federal level would help reverse the erosion of wages West Virginia’s workers have experienced over the past few decades, West Virginia does not have to wait on federal action.

How Does West Virginia Compare?

Currently, state code sets West Virginia’s minimum wage at \$7.25/hour, or equal to the federal minimum.⁴ But while federal law sets a minimum wage, states can set a higher minimum wage for their workers. Currently 19 states have passed legislation setting their minimum wages above the federal standard. The minimum wages in these states range from just over the federal minimum to \$9.19/hour (Map 1).

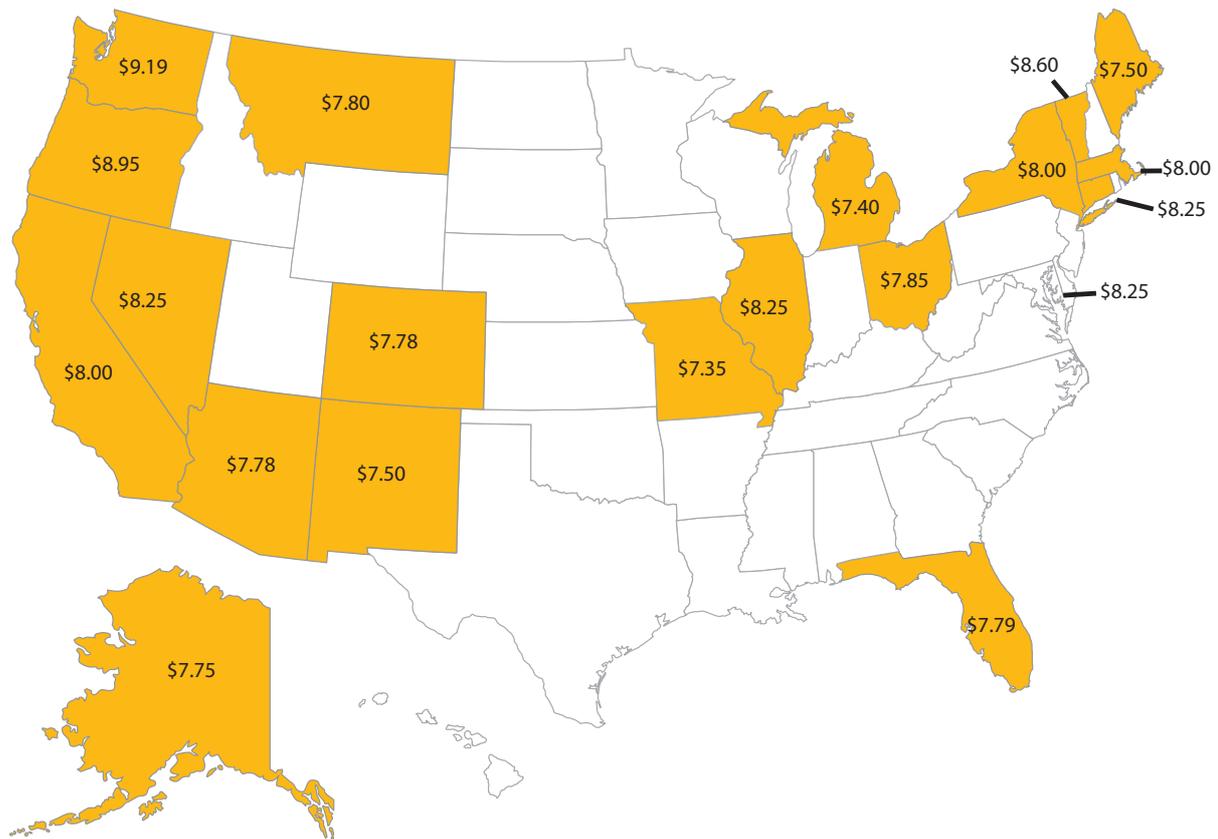
Who is affected by an increase?

According to the Bureau of Labor Statistics, 26,000 workers in West Virginia earned the federal minimum wage or less, about 5.7 percent of the total number of hourly workers.¹ More of West Virginia’s workers earn at or below the federal minimum wage than the national average. Nationwide, 4.7 percent of hourly workers earn the minimum wage or less.⁵

¹According to the BLS, there are 13,000 hourly workers earning the minimum wage and 13,000 workers earning less than the minimum wage in West Virginia. The BLS notes that the presence of workers with reported wages below the minimum does not necessarily indicate violations of the Fair Labor Standards Act, as there are exemptions to the minimum wage provisions of the law. The estimates of the numbers of minimum and subminimum wage workers presented pertain to workers paid at hourly rates; salaried and other non-hourly workers are excluded. As such, the actual number of workers with earnings at or below the prevailing minimum is likely understated.

MAP 1

West Virginia's Minimum Wage Lower Than in 19 Other States
States with Minimum Wage Hourly Rates Higher Than Federal Rate, 2013



Source: U.S. Department of Labor.

Note: New York's minimum wage is set to rise to \$8.00/hour from its current level of \$7.25 by the end of 2013. California's minimum wage is set to rise to \$10.00/hour by 2016.

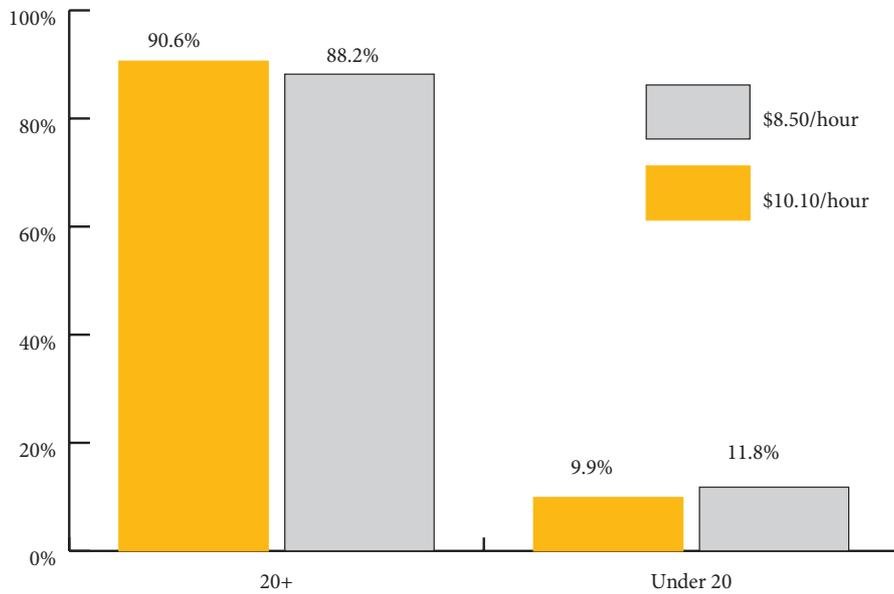
A substantially larger number of West Virginia workers would benefit from raising the minimum wage. Raising the minimum wage to \$10.10/hour, as prescribed in the Fair Minimum Wage Act of 2013, would benefit 191,000 workers in the state. This includes 133,000 directly affected workers who would see their wages rise because the new minimum would exceed their current hourly pay, as well as 58,000 indirectly affected workers who would receive a pay increase as pay scales are adjusted upward to reflect the higher minimum.⁶

In the past year, a number of states have introduced legislation or have seen campaigns to raise their minimum wage, both above and below the proposed \$10.10 rate in the Fair Minimum Wage Act. The proposals have ranged from an increase to \$8.25/hour in New Jersey to an increase to \$10.50/hour in Massachusetts.⁷ Even a modest increase in West Virginia's minimum wage would benefit a substantial number of workers. Raising West Virginia's minimum wage to \$8.50/hour would benefit 122,145 workers in the state, including 66,572 directly affected workers and 55,573 indirectly affected workers.⁸

The 191,000 West Virginian workers who would benefit from increasing the minimum wage to \$10.10/hour and the 122,000 who would benefit from an increase to \$8.50 share characteristics that contradict some of the prevailing beliefs about minimum-wage workers. While the perception exists that many minimum-wage earners are teenagers with part-time jobs, the reality is that the most of the beneficiaries of an increase in the minimum wage are adults working full time.

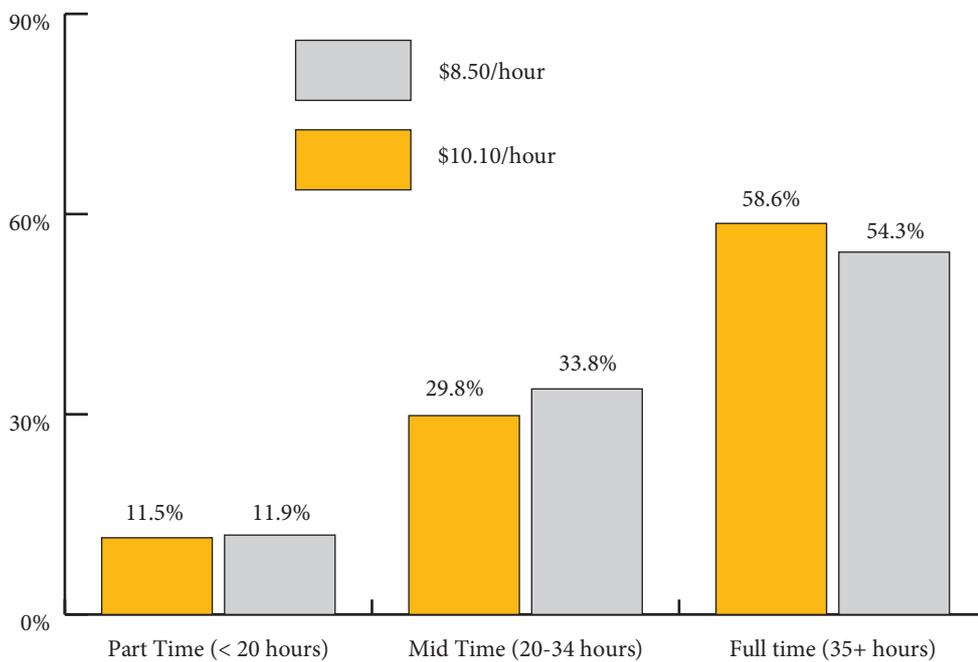
In West Virginia, nearly 90 percent of the beneficiaries of a minimum wage increase are over the age of 20 (Figure 6), while nearly 60 percent work full time and less than 12 percent are considered part time (Figure 7).

FIGURE 6
 Raising Minimum Wage Benefits Older, Experienced Workers
 Share of WV Workers Affected by Minimum Wage Increase by Age



Source: Economic Policy Institute.

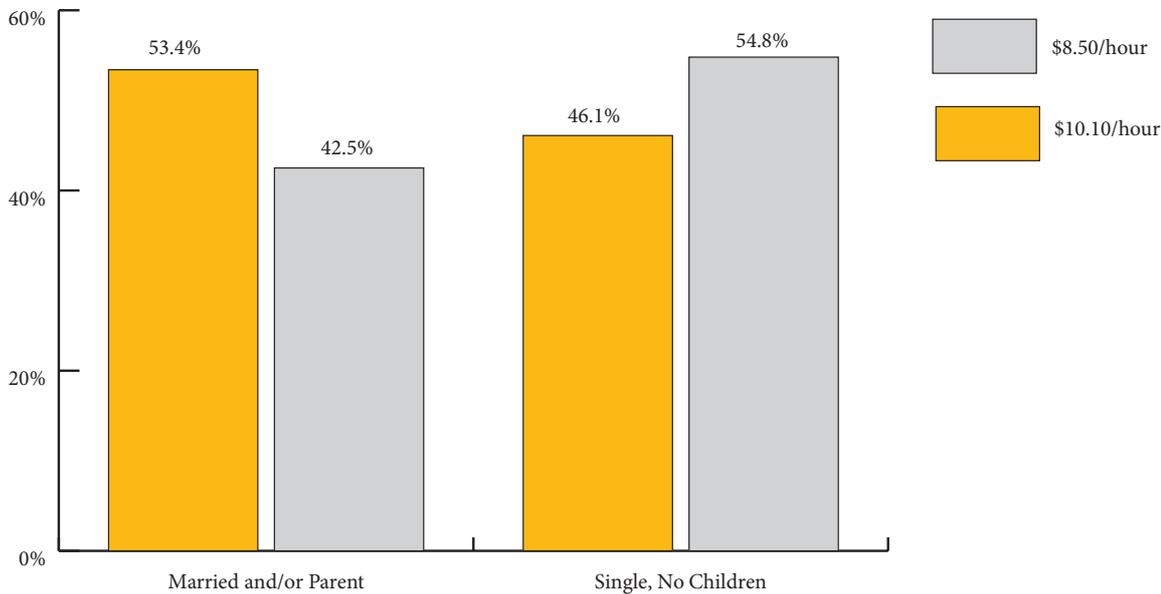
FIGURE 7
 Raising Minimum Wage Benefits Full-Time Workers
 Share of WV Workers Affected by Minimum Wage Increase by Work Hours



Source: Economic Policy Institute.

The beneficiaries of a minimum wage increase in West Virginia also have greater family responsibilities than commonly portrayed. More than 22 percent have children, while over 35 percent are married (**Figure 8**). On average, these workers provide nearly half of their family’s income, while almost one out of five of the workers is their family’s sole source of income. In addition, 25 percent of children in West Virginia live with at least one parent who would benefit from an increase in the minimum wage to \$10.10, while more than 10 percent would benefit from an increase to \$8.50.⁹

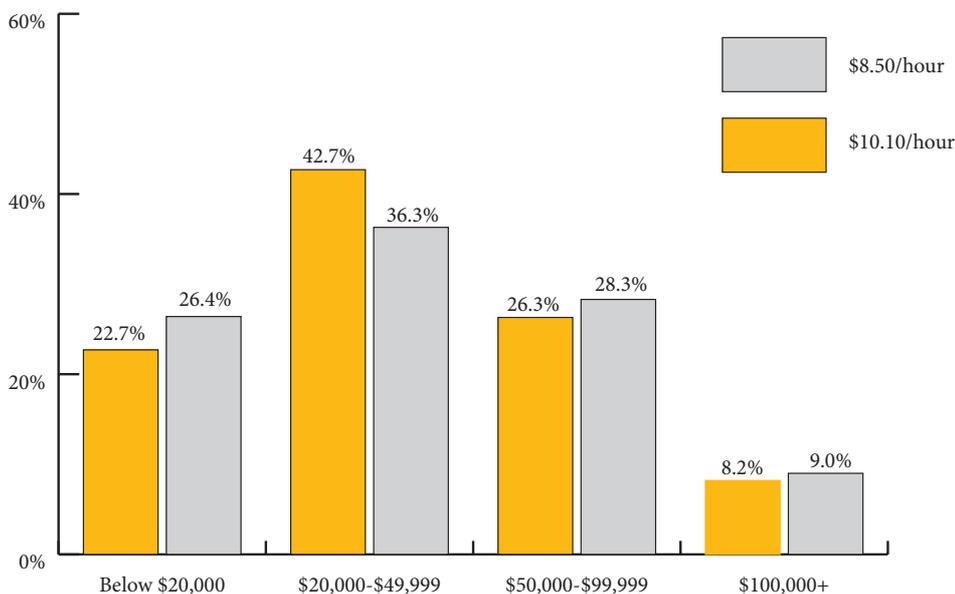
FIGURE 8
Minimum Wage Increase Benefits Workers Supporting Their Families
 Share of WV Workers Affected by Minimum Wage Increase by Family Structure



Source: Economic Policy Institute.

Raising the minimum wage would generally benefit low- and moderate-income families in West Virginia. More than 60 percent of the affected families have a family income of less than \$50,000, while more than 22 percent have a total family income of less than \$20,000 (**Figure 9**). The state’s median four-person family income was \$65,403 in 2011.¹⁰

FIGURE 9
Raising Minimum Wage Benefits Low- and Moderate-Income Families
 Share of WV Workers Affected by Minimum Wage Increase by Family Income

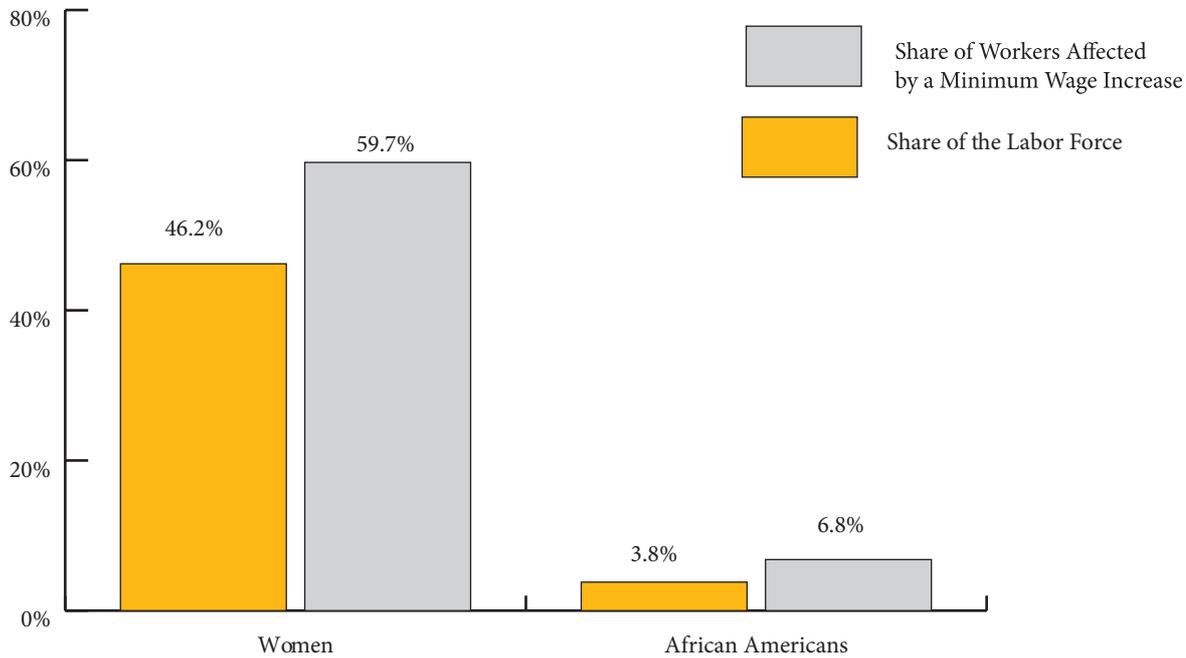


Source: Economic Policy Institute.

Both women and African Americans would benefit from an increase in the minimum wage. While women make up 46.2 percent of the state’s labor force, they make up 59.7 percent of the beneficiaries of an increase in the minimum wage to \$10.10. And while African Americans make up only 3.8 percent of the state’s labor force, 6.8 percent of the beneficiaries of an increase to \$10.10 are African American (**Figure 10**).

FIGURE 10

Raising the Minimum Wage Benefits Women and African Americans
Share of Labor Force and Share of Workers Affected by Minimum Wage Increase



Source: Economic Policy Institute.

Workers in West Virginia would see total wages increase by \$360 million due to an increase in the minimum wage to \$10.10/hr, an average of \$2,444 annually for the affected workers. The increase in wages would stimulate demand for goods and services, increasing the state’s GDP by \$228 million, and help create 900 jobs, according to analysis from the Economic Policy Institute.¹¹

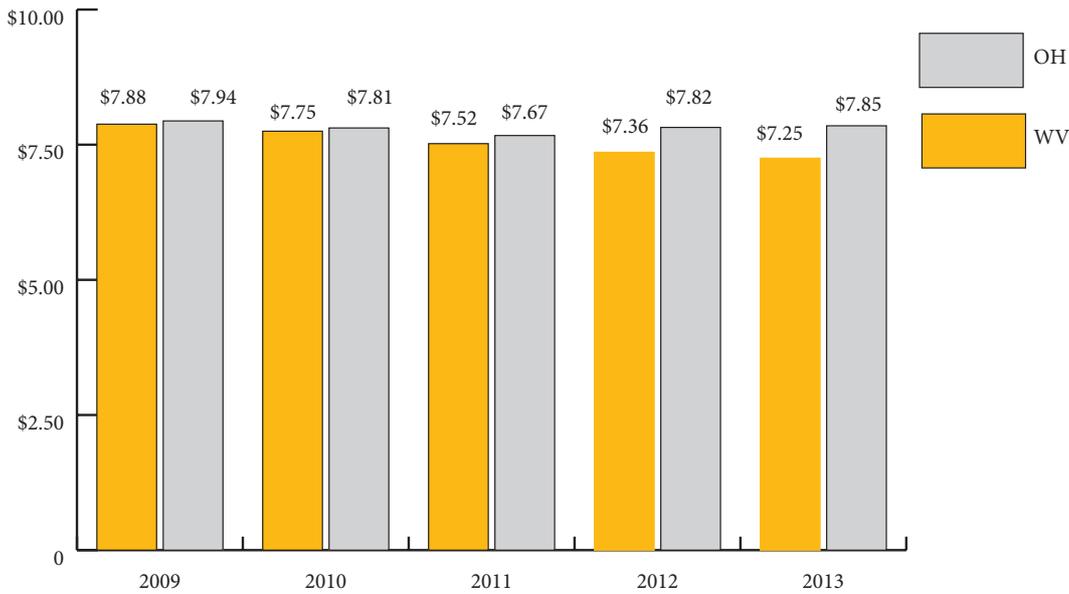
Indexing the Minimum Wage to Inflation

Raising the current minimum wage is important in restoring the value it has lost over the past decades, but it is just as important to prevent it from losing its value again in the future. Some states (Washington, Oregon, Vermont, Ohio, Arizona, Montana, Florida, Colorado, and Missouri) have addressed this problem by providing for automatic increases to the state minimum wage based on an inflation index.

For example in neighboring Ohio, voters approved an amendment to the constitution in 2006 requiring the state to make annual cost-of-living adjustments to the minimum wage based on the Consumer Price Index for Urban Wage Earners (CPI-W).¹² This action had helped Ohio maintain the real value of its minimum wage. So while the minimum wage in West Virginia has lost eight percent of its real value since it was last raised in 2009, Ohio’s automatic adjustments have kept its minimum wage stable (**Figure 11**).

FIGURE 11

Ohio's Minimum Wage Has Maintained Its Value Due to Indexing
 Real Value of Ohio and West Virginia Minimum Wages (2013 \$)



Source: U.S. Department of Labor. Real Value calculated using Consumer Price Index for All Consumers (CPI-U).
 2013 values based on Congressional Budget Office Projections.

Raising the minimum wage would restore the value that has been lost over the years, while indexing the minimum wage would help prevent further erosion, and protect the purchasing power of minimum-wage workers.

The Impact of Raising the Minimum Wage

How raising the minimum wage affects businesses and jobs is one of the most studied topics in economics. The standard economic model predicts that a minimum wage will make employees more expensive to hire, pricing some workers out of their jobs, leading to less employment. However, the most up-to-date research over the past decade shows that there is little to no affect on employment in response to modest increases in the minimum wage.¹³

Recent Research

One way to examine the large amount of economic research regarding the minimum wage is through meta-studies. Meta-studies are “studies of studies” that combine the results of a large number of separate analyses to come to a stronger conclusion than any one study. A recent meta-study looked at 64 minimum-wage studies published between 1972 and 2007 measuring the impact of minimum wages on teenage employment. The meta-study found an overall insignificant effect on employment from minimum-wage raises, concluding that minimum wages either have no effect or very small effects on employment.¹⁴

Another meta-study, this time looking at 27 minimum wage studies published since 2000, found varying results, both positive and negative, but none showed any statistically significant negative employment effects.¹⁵

In addition to the meta-studies, there have also been a number of recent individual reports that have found little to no employment effects related to a minimum wage. One prominent study examined restaurant employment differences across bordering counties with different minimum wages between 1990 and 2006. The study found no employment effects related to minimum wage increases, and also identified an important flaw in earlier studies that concluded there was a negative employment impact among low-wage workers due to the minimum wage. Earlier studies did not control for regional overall employment trends, which influence low-wage job growth but are unaffected by the minimum wage. Once these

regional differences are controlled for, the same earlier studies show no employment losses.¹⁶

Why Is There No Impact on Employment?

Raising the minimum wage does result in meaningful increases in the wages of affected workers, and does result in increased costs for businesses. But why does the result show only negligible results on employment?

One reason is that while raising the minimum wage does increase costs for businesses, the relative size of that increase is very small. For example, when the minimum wage was last increased in 2009, from \$6.55/hour to \$7.25/hour, 2.4 million workers were affected, and the total cost of the wage increase was \$1.9 billion. But that \$1.9 billion only accounted for a 5.4 percent increase in the wages paid to those affected employees that year. And it only amounted to a 0.03 percent increase of total wages paid to all workers (Table 2).¹⁷ And since wages are only one cost of doing business, the overall increase in business costs would be even smaller than that.

Table 2
Raising the Minimum Wage is a Small Cost to Business
Total Wage Impact of 2009 Minimum Wage Increase

Year	Minimum Wage (nominal dollars)	Increase from Previous Minimum (percent)	Number of FTE workers affected	Total Annual Cost of Wage Increase (billions)	Total Wages, Affected Workers (billions)	Total Wages, all workers (billions)	Total increase as share of total affected workers' wages (percent)	Total increase as share of all workers' total wages (percent)
2009	\$7.25	10.7%	2,407,638	\$1.9	\$34.5	\$5,546.5	5.4%	0.03%

Source: Center for Economic Policy and Research.

The relatively small cost of even a 10-percent increase in the minimum wage makes it easier for businesses to adjust to the cost increase through other means, rather than by decreasing employment. These alternative cost adjustments could include reductions in employee hours, benefits, or training expenditures, decreasing pay to high-wage employees, a reduction in profits, or through raising prices. However, there is little conclusive evidence showing large effects in these areas.¹⁸ For example, studies have shown that a 10-percent minimum wage increase would result in restaurant prices increasing only 0.7 percent¹⁹ and overall prices by no more than 0.4 percent, concluding that the minimum wage can be used to benefit the poor without causing significant job loss or too much inflation.²⁰ Another study found that a \$12.00/hour minimum wage, a 60-percent increase from its current level, would increase prices at Wal-Mart by only 1.1 percent, if the entire cost of the increase was passed onto consumers.²¹

One area that businesses have been shown to make significant adjustments to absorb the cost of a minimum wage increase is through reduced turnover. Minimum wage jobs typically have high rates of turnover, resulting in significant costs for businesses from unfilled vacancies, and high screening and training expenses. A higher minimum wage makes it easier to recruit and retain employees, lowering turnover costs and compensating for the wage increase.²² And studies examining teen and restaurant employment have shown that following a minimum wage increase there is a substantial decline in turnover rates.²³

Since the overall cost of an increase of the minimum wage is so small, only a small reduction in costs elsewhere, like turnover, is sufficient to eliminate the need for employment cuts, and helps explain why there is little effect on employment from an increase in the minimum wage.

Conclusion

Thousands of hard working West Virginians earn the minimum wage, but no matter how hard they work, the minimum wage is simply not enough afford the basics, like food, rent, and health care. But, not only that, these low-wage jobs also keep workers from contributing to their communities and the economy. The state cannot prosper if working families see the value of their wages shrink year after year.

Raising the minimum wage can help workers provide for their families, but it will also boost the economy, as people have more money to spend on housing, groceries, and goods from local businesses. And indexing the minimum wage to inflation will help ensure that the value of their paycheck will not lose value over time.

While 52 members of West Virginia's legislature have called on the United States Congress to increase the minimum wage to \$9.00 an hour, they do not have wait for Congress to act. West Virginia can join the 19 other states that have acted to raise their minimum wage above the federal minimum on their own.

The multiple positive benefits of raising the minimum wage easily outweigh the minor costs it creates. Raising the minimum wage helps reduce inequality, fights poverty, boosts the economy, and creates wealth and prosperity here in West Virginia.

Endnotes

- 1 http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=hcr107%20intr.htm&yr=2013&sesstype=RS&i=107&houseorig=h&billtype=cr
- 2 <http://www.epi.org/publication/bp357-federal-minimum-wage-increase/>
- 3 The Self Sufficiency Standard for West Virginia 2013 <http://workforcewv.org/lmi/SelfSufficiency/SelfSufficiencyStandard.html>
- 4 West Virginia State Code §21-5C-2
- 5 http://www.bls.gov/ro3/mw_wv.pdf
- 6 <http://www.epi.org/publication/bp357-federal-minimum-wage-increase/>
- 7 <http://www.raisetheminimumwage.com/pages/campaigns/>
- 8 EPI analysis of ACS data.
- 9 <http://www.epi.org/files/2013/EPI-federal-minimum-wage-state-impact.pdf>
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- 18 *Ibid.*
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- 22 Schmitt, John. 2013.
- 23 Dube, Lester, Reich. 2010.