



# STRENGTHENING THE FOUNDATION

A GEORGIA BUDGET AND POLICY INSTITUTE SERIES

## ***Strengthening the Foundation Series***

GBPI's *Strengthening the Foundation* series assesses state policies and programs designed to help low-income working families succeed in the labor market and achieve economic security. The first report, *Strengthening the Foundation: Investments in the Adult Workforce Build A More Prosperous Georgia*, broadly examined adult education and post-secondary education opportunities, economic development programs, and work supports for Georgia families. Subsequent publications will take an in-depth look at certain aspects of the public systems and policies tasked with expanding opportunity for low-income working families.

GBPI's *Strengthening the Foundation* series is part of the Working Poor Families Project, a national initiative supporting state nonprofit groups as they work to strengthen state policies for working families.



## **UPDATE: Georgia Minimum Wage Increase Would Benefit Hundreds of Thousands of Workers and Children**

### ***At a Glance: Who Benefits from a Minimum Wage Increase?***

The federal minimum wage increase to \$7.25 per hour in July 2009 will directly benefit an estimated 119,000 Georgia workers.

If Georgia raised the state minimum wage to \$8.00 per hour at that time, an additional 218,000 workers would benefit, for a total of 337,000 workers directly experiencing wage gains. Of these affected workers,

- 85 percent are 20 years of age and over.
- 51 percent are full-time employees (35 or more hours).
- 29 percent are married.
- Almost one in four are parents, with a total of approximately 156,000 children living in these families.

*Source: Economic Policy Institute*

### **Where Are We Now**

**The federal minimum wage rose to \$6.55 per hour in July 2008 and will rise to \$7.25 per hour in July 2009.** In a three-year phased increase, the federal minimum wage will rise from \$5.15 per hour to \$7.25 per hour for covered, nonexempt workers. Certain exceptions to the minimum wage exist for groups of workers, such as teenagers in their first 90 consecutive days of employment. Likewise, tipped employees, such as waiters and waitresses, have a minimum wage of \$2.13 per hour, if their tips bring their hourly pay up to \$6.55. The federal minimum wage will have the last of its phased-in increases in July 2009, when the minimum wage will become \$7.25 per hour.

**Georgia's current minimum wage is \$5.15 per hour.** Before the recent federal minimum wage increases, Georgia's state minimum wage matched the federal level. However, Georgia law has not changed to keep pace with recent federal increases. Georgia's minimum wage remains at \$5.15 for workers in firms with six or more employees. Workers will earn the higher of the two wages, except for

certain exempted workers. For example, workers in seasonal recreational establishments are not covered by the federal minimum wage, but are covered by the Georgia minimum wage.<sup>1</sup> Thus, these workers will have a minimum wage of \$5.15 per hour even as the federal minimum wage rises to \$7.25 per hour in 2009.

**Earning the minimum wage means earning a poverty wage.** Whether at the state or federal level, a minimum wage job equals poverty for many families. Working 40 hours per week, 52 weeks per year in a \$5.15 per hour minimum wage job produces an annual income of \$10,712. Boosting that wage to the current federal minimum wage of \$6.55 produces an income of \$13,624. For families headed by single parents, these incomes equal poverty incomes (Table 1). A single person or two-parent family with both parents earning \$5.15 per hour can just reach the poverty threshold or can slightly surpass poverty by earning \$6.55 per hour.

	Single working person	Family of 2 (1 working parent, 1 child)	Family of 3 (1 working parent, 2 children)	Family of 4 (2 working parents, 2 children)
Georgia minimum wage (annual income on \$5.15/hr)	\$10,712	\$10,712	\$10,712	\$21,424
Federal minimum wage (annual income on \$6.55/hr)	\$13,624	\$13,624	\$13,624	\$27,248
2007 Federal poverty threshold	\$10,787	\$14,291	\$16,705	\$21,027

*Source: Author's calculation, U.S. Census Bureau*

**Georgia has a disproportionate share of workers making at or below minimum wage.** In 2007, Georgia held 2.9 percent of the nation's employed workforce.<sup>2</sup> However, Georgia claimed 4.0 percent of all workers earning at or below the minimum wage in the U.S. Georgia has a disproportionate share of minimum wage workers when compared to its share of the nation's workforce.

## Economics of Raising the Minimum Wage

**Twenty-three states have a minimum wage higher than the federal minimum wage.** Georgia would not be alone in raising the minimum wage. As of January 2008, 32 states had a state minimum wage higher than the federal level.<sup>4</sup> Even with the increase in the federal minimum wage to \$6.55 in July 2008, 23 states continued to have a higher minimum wage than the federal level. (Employees receive whichever wage is higher, the state or federal minimum wage.) In addition, 10 states index their wage level to inflation, giving workers a minimum wage that rises with the cost of living each year.<sup>5</sup>

### *What Do Georgians Think?*

In a 2007 poll, Georgia residents on average said an income of \$44,000 was needed to cover the basics – such as housing, food, and clothing – for a family of four.<sup>3</sup> Under the Georgia minimum wage of \$5.15 per hour, a family of four with two, full-time workers earns an annual income of \$21,424 – less than half the amount Georgians consider “basic.”

**Economic analysis of states with a higher minimum wage found it to be “a policy that works.”** In a study of teenagers, young adults, and adults with limited education, statistician Paul Wolfson found that employment was not lower than it normally would have been in states with a higher minimum wage.<sup>6</sup> While the research on the minimum wage is substantial and the results are varied, the growing consensus appears to be that any effects the minimum wage has on employment are marginal. Some researchers now believe that minimum wage increases do not hamper employment or cause price increases because some of the additional cost to employers is offset by decreased absenteeism, increased productivity, decreased training costs, and higher morale.<sup>7</sup>

**Leading economists agree that the federal and state minimum wage should be raised.** Prior to the recent federal minimum wage increases, 650 economists, including 6 past presidents of the American Economic Association and 5 Nobel Prize winners, signed a statement encouraging an increase in the minimum wage:

“We believe that a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed. While controversy about the precise employment effects of the minimum wage continues, research has shown that most of the beneficiaries are adults, most are female, and the vast majority are members of low-income working families...As with the federal increase, modest increases in state minimum wages in the range of \$1.00 to \$2.50 and indexing to protect against inflation can significantly improve the lives of low-income workers and their families, without the adverse effects that critics have claimed.”<sup>8</sup>

While the federal government and a majority of states have pursued modest increases in recent years, Georgia has not attempted such an increase.

### Effects of Raising the Minimum Wage in Georgia

**Raising the Georgia minimum wage to \$8.00 per hour would help an additional 218,000 workers.** When the federal minimum wage rises to \$7.25 per hour in July 2009, an estimated 119,000 Georgia workers will be directly affected.<sup>a</sup> If Georgia raised the state minimum wage to \$8.00 per hour at that time, an additional 218,000 workers would benefit. That totals 337,000 workers who would experience wage gains in July 2009, if the state takes such action.<sup>9</sup> A more modest option would be an increase of the state minimum wage to \$7.50 per hour, which would benefit 116,000 additional workers for a total of 235,000 workers experiencing a wage gain in July 2009.

**An increase in the minimum wage would impact workers of all ages, race, gender and family composition.** A common myth about the minimum wage is that only teenagers work in minimum wage jobs. On the contrary, thousands of Georgians of varying ages work at or near the minimum wage. Table 2 displays the demographics of those workers affected by an increase in the state minimum wage to \$8.00 per hour. (Note: The demographics of workers affected by an increase to \$7.50 per hour would be similar.) An estimated 85 percent of workers affected by an increase to \$8.00 are 20 years of age or older. In addition, an estimated 51 percent of affected workers are full-time employees; 29 percent are married; 63 percent are women; 48 percent are white; and 36 percent are African-American. Of affected workers, almost one in four are parents.<sup>10</sup>

	<i>Percent of Affected Workers</i>
Full-time worker (35+ hours)	51%
Male	37%
Female	63%
20 years and older	85%
White	48%
Black	36%
Married	29%
Parent	23%
<i>Source: Economic Policy Institute, 2008</i>	

<sup>a</sup> “Directly affected” workers are those workers with wages below \$7.25 in 2009, who receive a raise to the new minimum wage. Certain other workers who already earn \$7.25 or above will benefit indirectly, by receiving raises based on employers attempting to maintain the existing pay scale.

**An increase to \$8.00 per hour would help an additional 110,000 Georgia children.** The number of workers affected by a minimum wage increase does not cover all the beneficiaries. Children of those workers also benefit from the increased pay of their parents and must be counted among the beneficiaries of a minimum wage increase. Estimates by the Economic Policy Institute indicate 46,000 children will benefit from the federal minimum wage increase to \$7.25, while an additional 110,000 Georgia children would benefit from a state minimum wage increase to \$8.00 per hour. In total, 156,000 Georgia children would see their families' earnings increase if Georgia achieved an \$8.00 minimum wage in July 2009.

**As TANF recipients move from welfare to work, a higher minimum wage can be a complement to other work supports.** Between January 2002 and November 2007, the number of Georgians receiving Temporary Assistance for Needy Families (TANF) decreased from 135,346 to 42,605 – a 69 percent drop. Among adult TANF recipients, the rolls dropped by 90 percent from 32,352 to 3,387.<sup>11</sup> One of the main tenets of welfare reform and the creation of TANF was the emphasis on work and work supports, such as childcare and job training. As more and more Georgians move from TANF to work, a decent wage is essential to their success. A higher minimum wage can be a part of Georgia's efforts to ensure these working adults have a successful transition into the workplace.

*The Georgia Budget and Policy Institute (GBPI) is an independent, nonprofit, non-partisan organization engaged in research and education on the fiscal and economic health of the state of Georgia. The GBPI provides reliable, accessible and timely analyses to promote greater state government fiscal accountability as a way to improve services to Georgians in need and to promote quality of life for all Georgians.*

<sup>1</sup> O.C.G.A. 34-4-3; Fair Standard Labors Act, <http://www.dol.gov/esa/whd/flsa/index.htm>.

<sup>2</sup> Bureau of Labor Statistics, <http://www.bls.gov/cps/minwage2007tbls.htm>. (Workforce defined as “employed wage and salary workers paid hourly rates.”)

<sup>3</sup> Holland, Jennifer. “Georgians See Poverty as a Major Problem but Differ on Causes.” *Peach State Poll*. University of Georgia, Carl Vinson Institute of Government. June 2007.

<sup>4</sup> U.S. Department of Labor. *Minimum Wage Laws in the States – January 2008*. [www.dol.gov/esa/minwage/america.htm](http://www.dol.gov/esa/minwage/america.htm).

<sup>5</sup> Economic Policy Institute. *Minimum Wage*. July 2008. [www.epi.org/content.cfm/issueguides\\_minwage\\_minwagefaq](http://www.epi.org/content.cfm/issueguides_minwage_minwagefaq).

<sup>6</sup> Wolfson, Paul. *State Minimum Wages: A Policy That Works*. Nov 27, 2006. Economic Policy Institute Briefing Paper 176.

<sup>7</sup> Economic Policy Institute. *Facts at a Glance*. July 2008. [www.epi.org/content.cfm/issueguides\\_minwage\\_minwagefacts](http://www.epi.org/content.cfm/issueguides_minwage_minwagefacts).

<sup>8</sup> Economic Policy Institute. <http://www.epi.org/content.cfm/minwagestmt2006>.

<sup>9</sup> Estimates of the impact of an \$8.00/hr minimum wage provided by the Economic Policy Institute. July 2008.

<sup>10</sup> Ibid.

<sup>11</sup> Welsh, Robert. *Tightening the Belt on Georgia's TANF Program: Doing More with Less in FY 2008 and Beyond*. Georgia Budget and Policy Institute. May 2008. [www.gbpi.org/pubs/gabudget/20080512.pdf](http://www.gbpi.org/pubs/gabudget/20080512.pdf). (Data obtained from the Georgia Department of Human Resources.)