

# POLICY WATCH

FROM THE KEYSTONE RESEARCH CENTER

## Senate Minimum Wage Proposal Offers Little Benefit for PA Workers: SB 1090 Fails to Make Up for Erosion of Minimum Wage by Inflation Since 1979 and Creates a Sub-Minimum Wage for Many Employees

Pennsylvania policymakers and the public have been debating the merits of raising the state minimum wage above the federal minimum wage of \$5.15 per hour. Following action by the Senate Labor and Industry Committee on Monday June 19, a bill to raise the state minimum wage, Senate Bill 1090, may be voted on this week by the Pennsylvania Senate. This KRC *Policy Watch* analyzes the features of this the current bill.

### The Proposal

As reported out of the Senate Labor and Industry Committee on June 19, 2006, SB 1090 (P.N. 1887) would:

- Raise the Pennsylvania minimum wage to \$6.30 per hour on January 1, 2007, and then to \$6.65 per hour on January 1, 2008.
- Create a lower minimum wage for businesses whose annual gross payroll is less than \$500,000. The lower minimum wage would be equal to 85% of the new state minimum wage; \$5.36 on January 1, 2007 and \$5.65 on January 1, 2008.
- Treat minors differently. Teen workers who are 17 or under who have not graduated or left high school would receive no increase, remaining at the current \$5.15 per hour. Minors who are 17 years old and have completed or dropped out of high school would be paid 85% of the new state minimum wage (\$5.36 on January 1, 2007 and \$5.65 on January 1, 2008).
- Prohibit new local regulations to establish local living wage or minimum wage laws that raise minimum wages above the new Pennsylvania minimum wage.

### Summary of Impacts

In its current form, Senate Bill 1090:

- Exempts more than 85% of employers from paying the higher minimum wage of \$6.30 in 2007 and \$6.65 in 2008. According to Department of Labor and Industry data, 86% of private employers have payrolls of \$500,000 or less. Many of these exempt businesses are retail franchisees, including of name-brand retail chains. These exempt businesses employ almost one million workers.
- Provides a minimum wage increase of only 21 cents/hour in 2007 or \$8 per week for employees of lower-payroll businesses.
- Provides — even for adult workers in businesses that are not exempt — a minimum wage that is \$1 less per hour, adjusted for inflation, than the minimum wage of 1979. If the minimum wage had kept pace with inflation since 1979, it would have been \$7.76 by 2008. In contrast, under the Senate proposal, higher-payroll businesses have to pay only \$6.65 in 2008.
- Raises the wages of only about 100,000 adults compared to the more than 300,000 that would benefit from an increase to \$7.15 by January 1, 2007.
- Would meaningfully raise the wages of very few teenage workers, even though many of these contribute vital dollars to help low-income families make ends meet.
- Encourages more exempt businesses and retail franchisees to compete based on low wages rather than trying to raise skills, productivity, and service quality.
- Prohibits local governments, including in high-cost areas, from doing more than the state as a whole to promote self-sufficiency through higher minimum wage or “living wage” laws.

### Behind the Impacts

For some impacts, additional detail is provided below.

***Inflation and the minimum wage.*** It has been suggested that the Senate proposal makes up for inflation eating away

the purchasing power of the minimum wage. This is true if one considers the effects of inflation since 1997, the last time the minimum wage was raised at the national level and in Pennsylvania. It is not true if you consider the effects of inflation over a longer period of time. In (projected) 2008 dollars, the 1979 minimum wage was \$7.76 per hour. This is \$1.11 per hour above the \$6.65 per hour that would be reached under the proposal bill by January 1, 2008.

**The number of adults who would benefit.** In earlier analyses, KRC compared the effect of a wage increase to \$6.25 per hour by January 1, 2007, with that of an increase to \$7.15 by January 1, 2007. We found that just over 100,000 adults would benefit from an increase to \$6.25 by January 1, 2007 compared to over 300,000 adults from the higher increase. The proposed Senate bill would benefit a similar number of adults because of two offsetting differences it has with a bill that would raise the minimum to \$6.25 per hour by January 2007: on the one hand, the Senate bill has a 5 cent per hour higher wage threshold by January 2007 (and a still higher wage threshold of \$6.65 by a year later); on the other hand, the Senate bill exempts about one in five employees from the new minimum wage thresholds. (For KRC's earlier analysis of the impact of a minimum wage increase to \$6.25 per hour by January 2007, see KRC Policy Watch, *Few Working Adults Would Benefit From a State Hourly Minimum Wage Increase to Only \$6.25*, online at [www.keystoneresearch.org](http://www.keystoneresearch.org).)

Fewer adults would benefit from SB 1090 than its House counterpart, HB 257, which passed the House in April. Table 1 compares the wage increase in each bill.

HB 257 would raise the minimum wage beginning July 2006, to \$6.25 per hour and raise it to \$7.15 in 2007. SB 1090 would delay the minimum wage increase until January 2007 and still pay 50 cents per hour less — or \$1000 per year less for a full-time, full-year worker — even when fully implemented in 2008.

**Teenage workers.** The Senate bill is explicitly crafted to limit the benefits for teenage workers, which is bad public policy for several reasons. Carving out sub-minimum wages for teenage workers provides an incentive for employers of these workers to favor cheap workers over adult workers, an approach that will not improve productivity, quality, and service. This low-road path is bad for consumers, employers, and both adult and teen workers. In addition, the proposal would disproportionately impact low-income households, within which teen workers make a vitally

important contribution to overall family income.

**Exempt Businesses.** The bill's exemption for business with payrolls below \$500,000 is unnecessary to spur job growth. According to a recent study by the Fiscal Policy Institute, in states with a minimum wage higher than the Federal minimum wage of \$5.15 per hour, employment in small businesses increased by 6.7% between 1998 and 2003, compared to 5.3% in states with a minimum wage of \$5.15.

Table 1. Pennsylvania Minimum Wage Proposals		
Date	HB 257	SB 1090
7/1/2006	\$6.25	
1/1/2007		\$6.30
7/1/2007	\$7.15	
1/1/2008		\$6.65

Policy Watch is issued periodically by the

Keystone Research Center  
412 N Third Street,  
Harrisburg, PA 17101

717-255-7181  
[www.keystoneresearch.org](http://www.keystoneresearch.org)