

# **AN ARKANSAS MINIMUM WAGE INCREASE**

## **HOW IT WORKS AND HOW IT WOULD BENEFIT ARKANSANS AND THE STATE**



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## HOW IT WORKS AND HOW IT WOULD BENEFIT ARKANSANS AND THE STATE

by Eleanor Wheeler, Senior Policy Analyst

### INTRODUCTION

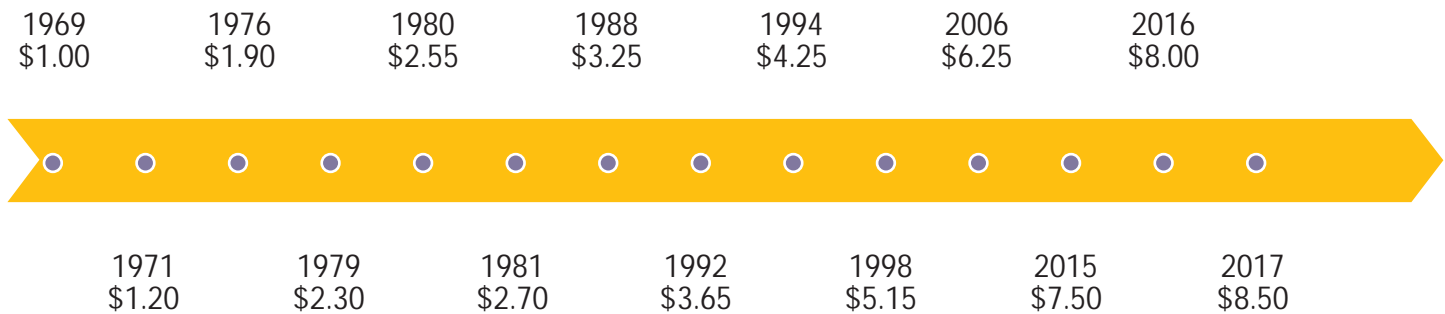
Like the federal minimum wage, Arkansas’s minimum wage doesn’t go up with inflation or worker productivity. So, it’s up to the Legislature and voters to periodically increase it. Arkansas has been increasing the state minimum wage at least once a decade since it was enacted in the late 1960s. When we go too long without increasing the minimum wage, or we don’t increase it enough, inflation eats away at real income, and families fall into poverty — especially black and Hispanic families.<sup>2</sup> There is evidence that another increase to our state minimum wage would benefit many low-wage workers in Arkansas.

### WHO MAKES MINIMUM WAGE?

People making minimum wage are often critical to the financial stability of their families. Many are parents. Half of hourly workers who make the federal minimum wage (\$7.25) or less are age 25 or older. Women across the nation are about twice as likely to be paid at or below the federal minimum wage.<sup>3</sup> In Arkansas, it is no different. Increasing our minimum wage to \$11 an hour would directly benefit around 213,000 workers in our state — Sixty percent of them are women.<sup>4</sup>

The industry and type of work also matters. People working in the leisure and hospitality industry are the most likely to be paid at or below the federal minimum wage.<sup>5</sup> This is significant for Arkansas, because the leisure and hospitality industry is the third leading employment growth sector in the state. This industry, which is vulnerable to low-wage practices, has added more than 17,000 jobs since 2010. That amounts to nearly 18 percent of the non-farm payroll employment changes during that time.<sup>6</sup>

### TIMELINE OF ARKANSAS MIN WAGE INCREASES<sup>1</sup>



## HOW IT ALL STARTED: ARKANSAS'S FIRST MINIMUM WAGE

Governor Winthrop Rockefeller called a special session in 1968, and during that session he succeeded in passing Arkansas's first state minimum wage, signing it into law on February 19th of that year.

This legislation established a minimum wage of \$1 an hour, which went into effect in 1969.

Source: Cathy Kunzinger Urwin, Agenda for Reform: Winthrop Rockefeller as Governor of Arkansas, 1967-71

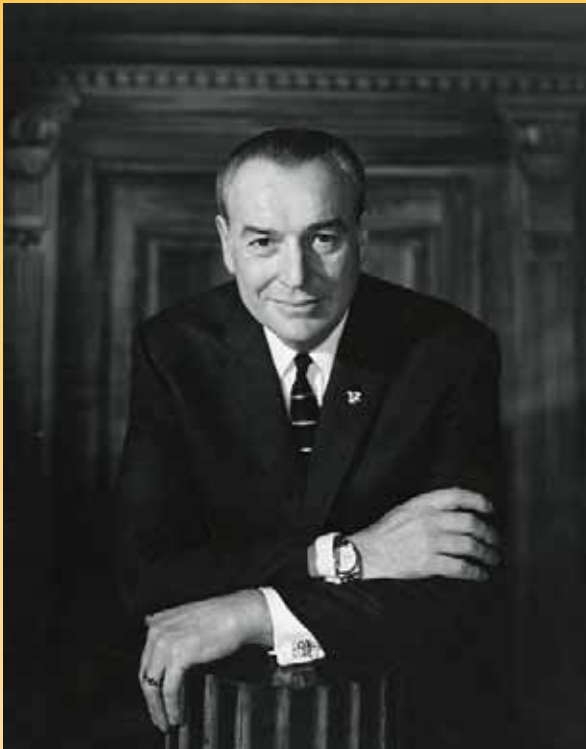


Photo courtesy of the Winthrop Rockefeller Institute

## WHAT ABOUT THE TIPPED WAGE?

Tipped employees in Arkansas, like many states, can be paid far below the state minimum wage. In Arkansas, a tipped worker must be paid \$2.63 an hour, and their employer is only required to chip in more if the worker's tips don't put them above the \$8.50 state minimum wage.<sup>7</sup> Not all states operate like this, though. Eight "equal treatment" states mandate that all employees, tipped or not, have the same minimum wage.<sup>8</sup>

This "equal treatment" minimum wage strategy has several benefits. First, in "equal treatment" states, waiters, waitresses, and bartenders are much less likely to live in poverty (11.1 percent in poverty) compared to states where tipped workers are paid the federal tipped minimum (18.5 percent in poverty). Also, "equal treatment" means less volatile income streams for low-income workers. Unpredictable "good days" and "bad days" from tips make financial planning difficult. Treating all wages equally for the minimum wage reduces this instability and has the added benefit of reducing racial and gender inequities (because women and racial minorities are more likely to work in tipped jobs).<sup>9</sup> The current Arkansas proposal to raise the minimum wage would not affect tipped workers.



## TIME FOR THE NEXT MINIMUM WAGE INCREASE

The real value of the federal minimum wage (accounting for inflation) peaked in 1968<sup>10</sup>, which is around the same time that Arkansas started having its own state minimum wage. At that time, a full-time worker making the federal minimum would have made \$20,600 a year (in 2017 dollars).<sup>11</sup> A full-time worker making Arkansas’s current minimum wage earns far less — just \$17,680 annually. That difference is equivalent to a 14 percent drop in

Greater than federal minimum wage	
NM	\$7.50
MO	\$7.85
DE	\$8.25
FL	\$8.25
IL	\$8.25
NV	\$8.25
MT	\$8.30
OH	\$8.30
AR	\$8.50
NJ	\$8.60
WV	\$8.75
SD	\$8.85
NE	\$9.00
MI	\$9.25
MN	\$9.65
AK	\$9.84
ME	\$10.00
CT	\$10.10
HI	\$10.10
MD	\$10.10
RI	\$10.10
CO	\$10.20
NY	\$10.40
AZ	\$10.50
VT	\$10.50
OR	\$10.75
CA	\$11.00
MA	\$11.00
WA	\$11.50
DC	\$13.25

Equals federal minimum wage of \$7.25
IA
ID
IN
KS
KY
NC
ND
NH
OK
PA
TX
UT
VA
WI

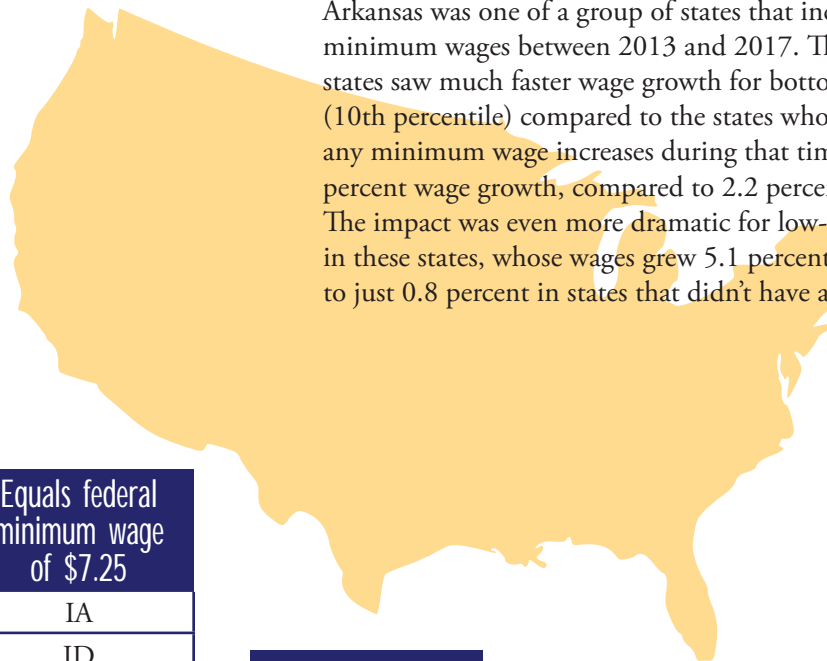
Less than federal minimum wage
GA \$5.15
WY \$5.15

No minimum wage required
AL
LA
MS
SC
TN

income. This tells us that our minimum wage law is not keeping up, and that we need to boost wages for low-income earners.

The number of Arkansans who are finding and keeping jobs is on the rise, but our wages have a lot of room to grow. Only one other state had a lower personal income growth than Arkansas from the beginning of 2017 to the beginning of 2018.<sup>12</sup> At the same time, other “non-wage” types of income in Arkansas are going up much more quickly (such as rental income and money made from stock investments).<sup>13</sup> A minimum wage change is a great way to make sure more of the benefits of economic growth are also being felt in low-income communities.

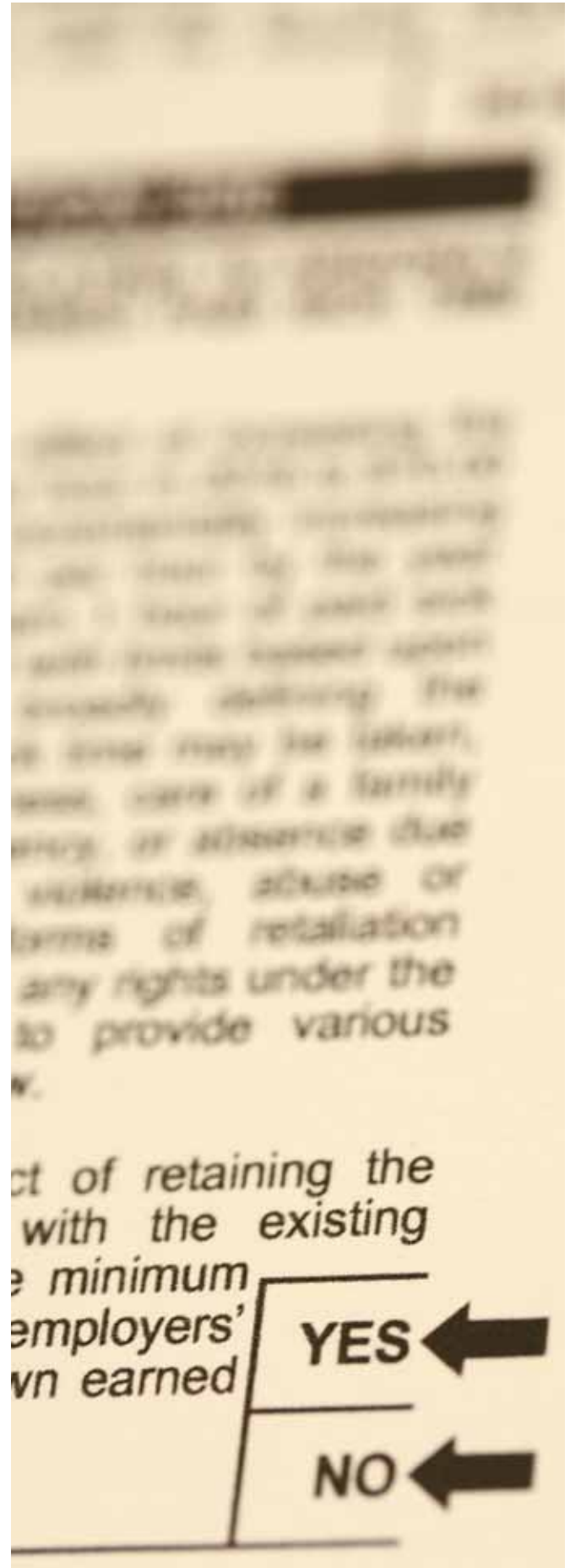
Overall, states who choose to increase their minimum wage have much faster wage growth at the bottom. Arkansas was one of a group of states that increased their minimum wages between 2013 and 2017. This group of states saw much faster wage growth for bottom earners (10th percentile) compared to the states who didn’t have any minimum wage increases during that time (5.2 percent wage growth, compared to 2.2 percent growth).<sup>14</sup> The impact was even more dramatic for low-wage women in these states, whose wages grew 5.1 percent (compared to just 0.8 percent in states that didn’t have an increase).<sup>15</sup>



2018 minimum wage by state- US DOL <https://www.dol.gov/whd/minwage/mw-consolidated.htm>

## HOW TO CHANGE THE ARKANSAS MINIMUM WAGE: BALLOT OR LEGISLATION

There are two ways to increase the minimum wage in Arkansas: through ballots that are voted on by the public, or through legislation passed by Arkansas lawmakers. Changes that happen through legislation follow the typical course: a lawmaker introduces a bill, which must be approved by a committee, then both chambers, and finally must be signed into law by the Governor. The most recent change to the Arkansas minimum wage was in November 2014, through a ballot initiative. The time before that, the minimum wage was increased by lawmakers during a legislative session at the State Capitol in 2006.<sup>16</sup> It is a fairly extensive approval process to get a proposal on the ballot to be voted on by the people, including getting the ballot title approved and the required number of signatures.<sup>17</sup>



## DETAILS OF THE UPCOMING BALLOT INITIATIVE:

The last time that Arkansas approved an increase in the minimum wage was in November 2014 through a ballot initiative. That ballot initiative moved the minimum wage up, gradually, from \$6.25 to \$8.50 an hour.<sup>18</sup> The current \$8.50-per-hour minimum applies to employers who have four or more workers (tipped employees have a minimum of \$2.63 per hour).<sup>19</sup> That was a big step forward, and a current ballot proposal would do even more to make sure that all full-time workers can afford to take care of their families. Here are the details:<sup>20, 21</sup>

- **Name:** An Act to Increase the Arkansas Minimum Wage
- **What it does:** This act would increase the Arkansas minimum wage from \$8.50 an hour to \$11 an hour, gradually, by 2021.<sup>22</sup>
- **When is it up for vote?** On the November 6, 2018 ballot, as long as legal challenges don't prevent its inclusion
- **How many employees will be better off?** If this act becomes law, 300,000<sup>23</sup> low-wage workers in our state will see their incomes increase by 2021. That is nearly 25 percent of our workforce who will be better off financially. Their incomes will go up more than \$700 during the first year, and they will see a cumulative total increase in income of over \$1,500 by 2021. The 300,000 estimate includes the 88,000 who make slightly more than minimum wage now, but who would see their wages go up as employers raise pay to keep them.

- **What kinds of workers are directly affected?** 213,000 workers in Arkansas make less than the proposed minimum wage (\$11 an hour) and would be directly impacted by this change. Of those:
  - Many women in Arkansas make low wages. Sixty percent of those who will be directly impacted are women.
  - Most who will be directly impacted are not teenagers. Eighty-five percent are over 20 years old.
  - Sixty-six percent of those who will be directly impacted are white, 20 percent are black, and 9 percent are Hispanic.
  - Those with service-oriented jobs will be most likely to benefit. Fifty-six percent of the directly-impacted workers work in either retail, health and social services, or food service.
  - More than half (57 percent) work full-time.
- **How will the state economy benefit?** The total cumulative increase in wages to low-income workers by 2021 will be over \$455 million. Because those wages go to low-income employees, they are more likely to be spent locally, boosting local economies and the state as a whole.
- **How will children be better off?** Over 155,000 kids in Arkansas will have at least one parent directly or indirectly affected by this increase in the minimum wage. Twenty-seven percent of workers who will see increased wages because of this change are parents.



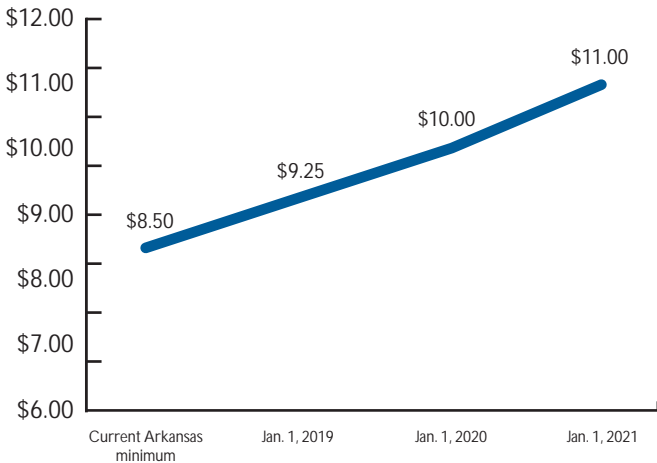
HOW THE CURRENT MIMINUM WAGE PROPOSAL WILL INFLUENCE THE ARKANSAS WORKFORCE BY 2021

Category	Estimated workforce	Directly affected	Share directly affected	Indirectly affected	Share indirectly affected	Total affected	Share of workforce affected	Average increase in annual income - directly affected (this step)	Average increase in annual income - indirectly affected (this step)	Average increase in annual income - all affected workers (this step)	Cumulative change in average annual earnings of all affected workers
<b>Total</b>	1,210,000	213,000	17.6%	88,000	7.2%	300,000	24.8%	1,040	370	840	1,520
<b>Sex-</b>											
Female	613,000	129,000	21.1%	51,000	8.3%	180,000	29.4%	1,070	390	880	1,610
Male	597,000	83,000	14.0%	37,000	6.2%	120,000	20.1%	990	360	800	1,380
<b>Age</b>											
20+	1,165,000	182,000	15.6%	82,000	7.0%	264,000	22.6%	1,090	370	860	1,540
Under 20	45,000	31,000	68.3%	6,000	13.1%	37,000	81.5%	740	480	700	1,360
<b>Race/ethnicity</b>											
White	874,000	140,000	16.0%	50,000	5.8%	191,000	21.8%	1,020	360	850	1,500
Black	192,000	43,000	22.1%	19,000	9.7%	61,000	31.8%	1,090	400	880	1,670
Hispanic	88,000	19,000	21.8%	14,000	15.7%	33,000	37.5%	1,010	400	750	1,270
Other race/ethnicity	56,000	11,000	19.0%	5,000	8.5%	15,000	27.5%	1,090	310	850	1,680
<b>Family status</b>											
Married parent	322,000	33,000	10.2%	18,000	5.6%	51,000	15.8%	1,240	400	940	1,840
Single parent	104,000	23,000	21.8%	9,000	8.8%	32,000	30.6%	1,030	430	860	1,440
Married, no kids	362,000	42,000	11.7%	20,000	5.4%	62,000	17.1%	1,090	380	870	1,440
Unmarried, no kids	423,000	115,000	27.2%	41,000	9.6%	156,000	36.8%	960	350	800	1,460
Children with at least one affected parent	706,000	107,000		49,000		155,000	22.0%	-	-	-	-

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 2017  
 Note: Values have been rounded.



**MINIMUM WAGE WOULD INCREASE OVER TIME UNDER NEW LAW**



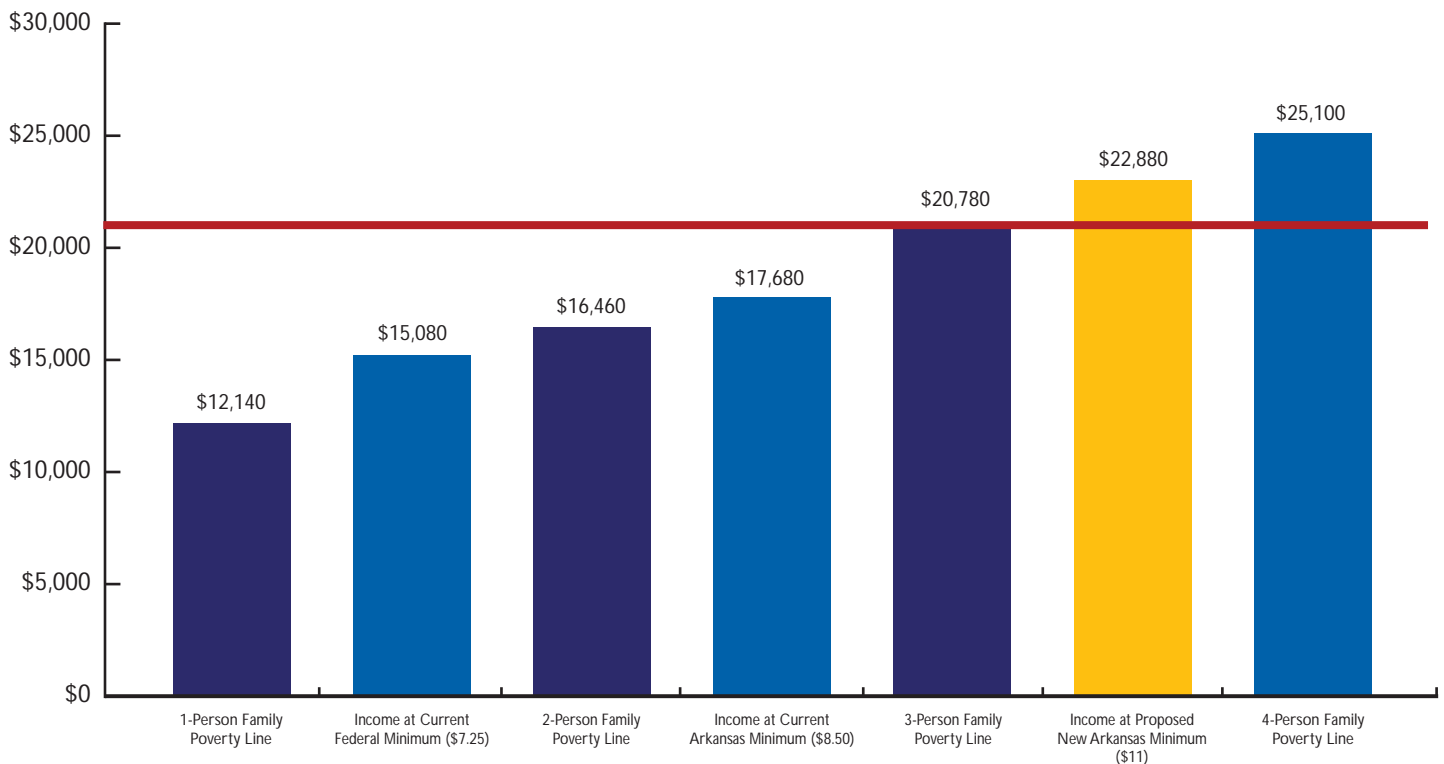
**THE INTERACTION OF FEDERAL, STATE AND LOCAL MINIMUM WAGES**

There is a Federal minimum wage, but states can choose to have their own minimums as well. Many cities and counties also have the option to enact their own minimum wages. For states without a minimum wage, or with one that falls below the federal minimum wage, workers must be paid according to the federal minimum wage in most circumstances. However, some workers still aren't covered by these minimums. For instance, even though Arkansas has a minimum wage above the federal, some employees are still not covered (such as those at very small organizations). So, there are still about 14,000 employees (or 2 percent of hourly workers) in Arkansas who make at or below the federal minimum wage.<sup>24</sup>



Many cities and counties can elect to raise their minimum wage locally, to account for issues like higher cost of living.<sup>25</sup> Over 40 cities and counties nationally have chosen to raise their own minimum wage.<sup>26</sup> However, a growing number of states are making this type of local adjustment more difficult. In 2017, Arkansas passed a law that prevents localities from passing their own minimum wages.<sup>27</sup> This type of "preemption law" limits the ability of cities and counties with relatively high cost of living to ensure that their residents make a living wage.

**NEW MINIMUM WOULD LIFT A FAMILY OF THREE ABOVE THE POVERTY LINE**



Source: <https://aspe.hhs.gov/poverty-guidelines>

## IMPACT ON BUSINESSES

The state and federal minimum wage rates have been periodically increased for decades. We want the minimum cost of labor to go up over time so that families can be protected from exploitation. Although some businesses may prefer lower labor costs, the cost of labor will increase with time just like any other business input.

Increases to the minimum wage have been shown to have minimal effects on employment. We can see this by looking in our own backyard. We know that Arkansas did not experience unemployment problems following the most recent minimum wage increase; in fact, our unemployment has hit historic lows. This makes sense given the economic research on the topic: minimum wage increases have negligible impacts on employment<sup>28</sup>, and low-income families overall are far better off after minimum wages go up.<sup>29</sup>

However, this isn't to say that businesses find changes to the minimum wage irrelevant. The economic research indicates that employers are unlikely to dramatically reduce the number of people they employ<sup>30</sup>, so how are employers making up the difference? In part, it's

because paying workers a living wage is actually good for a business's bottom line. Many employers who choose to pay workers above the minimum wage already know what the research confirms — higher wages lead to high productivity, lower turnover and retraining costs, and better customer service.<sup>31</sup>

Furthermore, like with tax credits that target low-income families (including the Earned Income Tax Credit), minimum wage increases put more money into the pockets of people who are likely to spend it at local businesses<sup>32</sup>. The current minimum wage proposal would put over \$455 million dollars into the pockets of working Arkansans by 2021.<sup>33</sup>

## CONCLUSION

Contrary to popular opinion, minimum-wage workers are not mostly teenagers earning extra spending money. They are moms and dads, students, caretakers and often are the sole breadwinners in their households. The minimum wage is an effective, historic policy that protects many working families from falling into poverty, and it must increase over time to remain effective.



## ENDNOTES

- 1 From the Economic Research Division of the Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/STTMINWGAR>
- 2 <https://www.epi.org/publication/the-erosion-of-the-federal-minimum-wage-has-increased-poverty-especially-for-black-and-hispanic-families/>
- 3 <https://www.bls.gov/opub/reports/minimum-wage/2017/home.htm>
- 4 Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 2017
- 5 <https://www.bls.gov/opub/reports/minimum-wage/2017/home.htm>
- 6 <https://www.arkansaseconomist.com/>
- 7 <https://www.labor.arkansas.gov/minimum-wage-and-overtime>
- 8-9 <https://www.epi.org/blog/seven-facts-about-tipped-workers-and-the-tipped-minimum-wage/>
- 10 <http://www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/>
- 11 <https://www.epi.org/publication/the-erosion-of-the-federal-minimum-wage-has-increased-poverty-especially-for-black-and-hispanic-families/>
- 12-13 <https://www.arkansaseconomist.com/?p=7095>
- 14-15 <https://www.epi.org/publication/between-2013-and-2017-wage-growth-at-the-bottom-was-strongest-in-states-with-minimum-wage-increases/>
- 16 <http://www.arkleg.state.ar.us/assembly/2005/S1/Acts/Act15.pdf>
- 17 [https://www.sos.arkansas.gov/uploads/elections/2017-2018\\_I\\_\\_R\\_Handbook\\_Jan\\_2018.pdf](https://www.sos.arkansas.gov/uploads/elections/2017-2018_I__R_Handbook_Jan_2018.pdf)
- 18 <https://labor.publishpath.com/Websites/labor/images/2014IssueNo5.pdf>
- 19 <https://www.labor.arkansas.gov/Websites/labor/images/FactArkansasMinimumWage.pdf>
- 20 As this publication went to press, the ballot title had been approved and it appeared that proposal would have the required number of signatures.
- 21 Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 2017
- 22 <https://www.arkansasag.gov/assets/opinions/2018-043a.pdf>
- 23 213,000 Arkansas employees will be directly affected, meaning their current wage is less than the future minimum wage. Another 88,000 workers are indirectly affected, meaning they make slightly more than the new minimum, and will receive raises based on adjusted pay scales from employers.
- 24 <https://www.bls.gov/opub/reports/minimum-wage/2017/home.htm>
- 25-26 <https://www.nelp.org/publication/fighting-preemption-local-minimum-wage-laws/>
- 27 <https://www.epi.org/preemption-map/>
- 28 [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2705499](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2705499)
- 29 <https://www.epi.org/publication/bold-increases-in-the-minimum-wage-should-be-evaluated-for-the-benefits-of-raising-low-wage-workers-total-earnings-critics-who-cite-claims-of-job-loss-are-using-a-distorted-frame/>
- 30 <https://www.cbpp.org/research/economy/policy-basics-the-minimum-wage>
- 31 <http://cepr.net/documents/publications/min-wage-2013-02.pdf>
- 32 <https://www.epi.org/publication/raising-federal-minimum-wage-to-1010/>
- 33 Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 2017

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