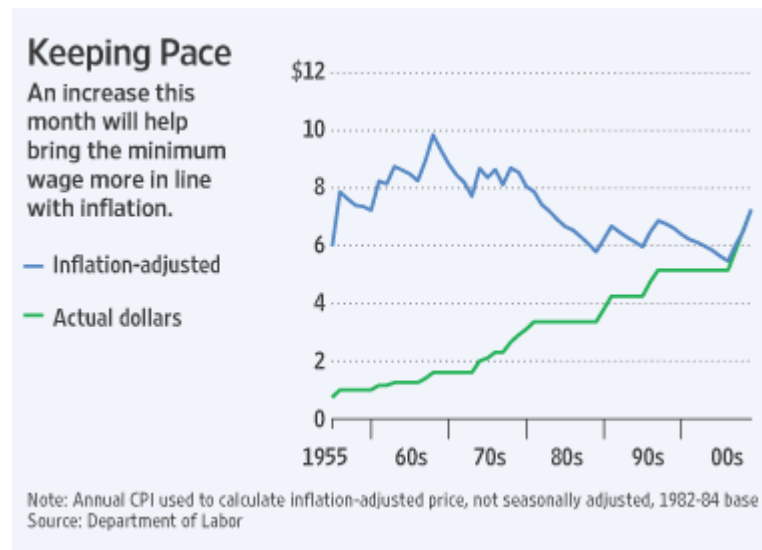


# Minimum-Wage Increase Comes at a Bad Time for Weakened Job Market

By [KRIS MAHER](#)

The federal minimum wage goes up this month just as job losses are sending new alarms about the economy, giving traction to perennial fears that higher wages will hurt job creation.

In the past, minimum-wage increases have done little to dent job creation. And pouring more money into people's pockets -- especially low-wage workers who are likely to spend the increase to meet living costs -- would normally boost the economy.



But these aren't normal times.

"It's tough timing," said John Silva, chief economist at Wells Fargo, who expects low-skilled workers and teenagers will be hit hardest. "You're going to have a very negative response. In a recession like this, companies don't have the pricing power to pass on those costs."

History, in this case, isn't a reliable predictor, he says, because the current economic slump is much deeper than during previous times.

The job market remains weak; figures released last week show the June unemployment rate hit 9.5%. Consumer confidence, consistently low, retreated in June, translating into weak traffic at restaurants, car washes and hotels, all places that rely heavily on minimum-wage workers.

The impact of the higher minimum wage will resonate even beyond that group of earners and industries. Economists say there are 2.8 million workers earning between the current federal minimum wage of \$6.55 an hour and the new minimum wage of \$7.25 an hour, which takes

effect on July 24 and has had no signs of delay from legislators. But some estimates figure an additional seven million workers are affected because their wages are tied to the minimum and will go up accordingly.

Ryan Arfmann, who owns a Jamba Juice franchise in Idaho Falls, Idaho, is a case in point. He said he will have to boost pay to all of his 18 workers. The ones making less than \$7.25 an hour will be raised to the new rate. But he said he will have to give raises to those currently earning more than \$7.25 an hour because they have more experience.

As a result, he plans to cut hours for his part-time workers. "I'll definitely have to run a tighter shift each day and watch numbers like never before," said Mr. Arfmann, who estimates his business is down between 3% and 4% this year.

Still, many economists also see long-term positive effects for the economy from boosting the income of those at the bottom of the economic ladder. They note that many small businesses may benefit through higher productivity in the form of improved worker retention and less churn.

The Economic Policy Institute estimates that the minimum-wage increase will add \$5.5 billion to the economy, and that this money is likely to be readily spent by low-wage workers, giving a boost to local economies. Heidi Shierholz, an economist at the liberal think tank in Washington, argues that "it is actually a good time" for an increase in the minimum wage.

The change is welcome to workers such as Walter Jasper, 48 years old, who earns \$6.55 an hour at Shur Brite Hi Speed Car Wash in Nashville, Tenn. He has worked there for 14 years off and on. His wife earns \$7 an hour working at a discount store and will also get an increase in her paycheck. Mr. Jasper said he and his wife will be late with their rent payment of \$359 this month and that the extra income will be used to pay bills.

The minimum-wage increase is the third step of a three-step increase passed by Congress in 2007, meaning businesses had time to prepare. Many states, including California, at \$8 an hour, already have minimum wages that surpass the federal level. Last year, as a presidential candidate, President Barack Obama proposed raising the federal minimum wage to \$9.50 an hour by 2011.

Before 2007, the federal minimum wage stayed for 10 years at \$5.15 an hour, undermining the actual earning power of low-wage workers.

"There is a long-term rationale: to make sure minimum wage at least keeps pace with inflation," said Nariman Behraves, chief economist with IHS Global Insight in Lexington, Mass. "If you're going to impose a minimum wage, you want to make sure it keeps up, which it hadn't been for a while." The legislation, he said, was an attempt to make sure people weren't getting hurt by inflation and that their wages were keeping pace.

But, he adds, this is probably the worst time to be raising wages. "This is an unfunded mandate that the government is imposing at a time when the economy is struggling," he said.

Questions:

1. Use a graph to show how a minimum wage different from equilibrium wage could cause more people to lose their jobs;
2. Discuss the effect of an increase in minimum wage on the unemployment rate;
3. According to the article, what types of workers would be most affected by the increase of minimum wage and how?;
4. Explain why some economists think that an increase of minimum wage will have some positive long-term effects on economy.