



For some making minimum wage, the new year holds modest promise

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Ron Scherer Staff writer

With Congress in a stalemate over lowering payroll taxes, at least some states will be helping low-income wage earners: On Jan. 1, eight states will raise the minimum wage.

According to the National Employment Law Project (NELP), as a result of state laws that require the minimum wage to keep up with inflation, some 1 million workers, such as people who work in retail or hospitality, will get raises that amount to an extra \$582 to \$770 a year for a full-time worker.

For example, for a minimum wage earner living in Washington State, the minimum wage will rise 37 cents an hour to \$9.04 per hour and for workers in Florida it will rise from \$7.31 an hour to \$7.67 an hour.

"What makes this important is that the cost of living is going up and wages for low wage earners actually came down 3.2 percent in the recession," says Tsedeye Gebreselassie, staff attorney at NELP. "So, it gives low wage workers a modest increase even though it's just maintaining their buying power."

Although the effect on the economy will be very modest, some economists believe it will be helpful since low income workers spend all the money they make to pay for such things as groceries, gasoline and housing. Even with the raise, many of the workers will still be below the federal poverty level of about \$15,000 a year for a single adult.

Although the increase will no doubt help some workers, the actual effect is relatively modest. In Florida, for example, the increase comes to \$14 per week, which will buy about 4 gallons of gasoline, based on the current state average of \$3.25 a gallon, according to AAA's Daily Fuel Gauge Report.

According to an analysis by the Economic Policy Institute, a liberal-leaning think tank in Washington, the increased consumer spending generated by the raises will lead to an additional \$366 million in Gross Domestic Product (GDP) and create the equivalent of 3,000 full-time jobs.

"The main idea is that even though it's not highly stimulative, the impact is positive and there won't be a net job loss," says David Cooper, a researcher at the EPI.

However, conservative economists argue raising the minimum wage results in either job losses or the displacement of workers into parts of the economy where wages are even lower than the minimum.

"My argument is that if you push too hard, you just displace some people from say checking out groceries because they get replaced with a computer," says Alan Reynolds, a senior fellow at the Cato Institute, a libertarian think tank in Washington. "Then they get displaced into the sub-minimum wage area into jobs that are really bad," he says, pointing out that some 2.5 million people - such as newspaper carriers - earned less than the minimum wage.

Mr. Reynolds also argues that raising the minimum wage mostly hurts young people. "Why hire someone with no experience for \$8 an hour when you can get someone with experience for the same wage?" he asks.

Raising the state minimum wages will also have a spill-over effect since many workers get paid some premium over the minimum wage. Cooper estimates this would increase the wages for about 394,000 workers.

Ms. Gebreselassie thinks raising the minimum wage will also be beneficial to women. "Low income wage earners are disproportionately women," she says. "For example, many are home health care providers, which is a growing occupation."

The increases in the states won't affect the federal national minimum wage. In 2007, after a lengthy battle Congress increased the minimum from \$5.15 per hour to \$5.85 an hour in 2007, \$6.55 in 2008 and \$7.25 in 2009.

According to NELP, there are five states with no state minimum wage at all. They are Louisiana, Tennessee, Alabama, South Carolina and Mississippi. Workers in those states get the federal minimum if they qualify. Missouri's minimum is under the federal level.

The states that will be increasing the minimum wage Jan. 1 are Arizona (to \$7.65 per hour), Colorado (\$7.64), Florida (\$7.67), Montana (\$7.65), Ohio (\$7.70), Oregon (\$8.80), Washington (\$9.04) and Vermont (\$8.46). Nevada will reset its minimum wage (currently \$7.25) based on inflation in July.