Written by Brian Koenig on January 3, 2012

Washington Becomes First State With Minimum Wage Above $9 an Hour

According to data from the Census Bureau, more than a million low-wage U.S. workers will see their hourly wages rise, including workers in Arizona, Colorado, Florida, Montana, Ohio, Oregon, Vermont, and Washington. Based on a typical 2,000-hour work year, the wage hike will generate annual salaries for minimum-wage workers of between $15,280 and $18,080, depending on the state.

A total of 10 states currently tie their minimum wage to inflation, eight of which made adjustments for an effective date of January 1; Missouri opted to wait on a rate change and Nevada plans to make adjustments later this year. The increases per state range from $0.28 an hour in Colorado to $0.37 in Washington, and new minimum wages in the eight states now range between $7.65 and $9.04 an hour.

Nearly one-fifth of those "directly affected" by the new provisions reside in Washington State, according to data from the Economic Policy Institute (EPI), a liberal-leaning research group based in Washington, D.C. Additionally, nearly 400,000 workers will be "indirectly affected" by the increase — meaning, those whose current wages are slightly above the new minimum — and will potentially see a wage increase due to employers adjusting their overall pay structures.

"Some people look at these numbers and say, 'How much of a difference can an extra 37 cents an hour make?'" asserted Doug Hall, director of the EPI's Economic Analysis and Research Network. "But the truth is that for folks who are making that small an amount of money, it makes a lot of difference." For instance, Hall notes, in Florida, the 36-cent-per-hour hike means an extra $720 a year in pretax compensation, much of which will remain untouched by the government if workers claim the earned income tax credit.

Supporters of the new labor stipulations argue that the states' measures bolster the ranks of the working poor in an economy where nearly one-in-six citizens live below the poverty line. Moreover, proponents contend that a "fair" minimum wage preserves the buying power of vulnerable workers, particularly women and minority groups. According to EPI's analysis, more than half of the workers who will benefit from the new wage increases will be women, some of whom are raising children on their own.

While proponents of the minimum wage hail the new rates, many critics say mandated base wages only worsen to the plight of the working poor, because regulatory labor controls oftentimes inhibit job creation, especially jobs that do not demand much experience or specialization. “Higher minimum wages reduce demand for less skilled employees,” stated Michael Saltsman, a fellow at the Employment Policies Institute, a conservative research organization.

For example, Saltsman pointed out that the 37-cent increase in Washington will place a weighty burden on restaurants in the state, especially when considering a provision that prohibits businesses from applying tip income to the minimum wage. Restaurants in the state already have fewer bussers per table than the national average, Saltsman averred, and the new wage hike will force businesses to curb labor expenses even more. “It’s just too expensive to keep them on the floor,” he said.

In a stale economy, when profit margins are razor thin, many businesses warn that they will have to slash employee hours or lay off workers to compensate for boosted wage mandates. According to a recent analysis by the Employment Policies Institute, the connection between wage increases and job losses is clear:

> Economic research has extensively documented that teen jobs are lost as an unintended consequence of a higher minimum wage. When labor costs increase due to a wage hike, employers who have to pay this new higher wage to train low-skilled, minimum wage workers find a way to do more with less. That might mean reductions in customer service or an increased reliance on automation.

The study, produced by Drs. Nicole Coomer and Walter Wessels, illustrates how minimum wage increases can be severely damaging to minimum wage workers, who are often young, inexperienced, and working part-time. Such workers are often employed in industries such as food service, where margins are exceedingly low, so any increase in labor costs is commonly offset with reductions that often translate into fewer jobs.

“The difference between total job loss and minimum wage job loss is dramatic,” Coomer and Wessels reported. In the study, they found that when the minimum wage increased by 10 percent, employment for 16-to-19-year-olds in minimum wage jobs falls by as much as 11.1 percent; specifically for 16-to-17-year-olds, losses in employment spike to about 13 percent.

In another study published by the research group, labor economists William Even and David Macpherson presented notable racial disparities in employment that were provoked by minimum wage increases. In examining interstate variations in the minimum wage between 1994 and 2010, the authors exhibited conclusive evidence to the question of whether wage mandates have disparate outcomes on minority groups:

> Drs. Even and Macpherson focus on 16-to-24 year-old males without a high school diploma, a group that previous studies suggest are particularly susceptible to wage mandates. Among white males in this group, the authors find that each 10 percent increase in a federal or state minimum wage decreased employment by 2.5 percent; for Hispanic males, the figure is 1.2 percent.
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> But among black males in this group, each 10 percent increase in the minimum wage decreased employment by 6.5 percent. The effect is similar for hours worked: each 10 percent increase reduced hours worked by 3 percent among white males, 1.7 percent for Hispanic males, and by 6.6 percent for black males.

Even and Macpherson concluded that across all 50 states, approximately 34,300 black young adults lost their jobs due to the recession. During that same period, the authors noted, 26,400 dipped into unemployment due to minimum wage increases that occurred during that period.

In the end, there lies a discernible question: “What is more favorable, higher wages and higher unemployment, or lower wages and lower unemployment?” One might suggest that the millions of Americans who remain in the blighted ranks of the unemployed and underemployed are likely to choose the latter.