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Arkansas Democrat Gazette

NORTHWEST ARKANSAS EDITION

Minimum wage increase a mixed bag

BY TOBY MANTHEY
 Posted on Sunday, July 12, 2009
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Some companies will see their expenses rise and many workers will see bigger paychecks when the federal minimum wage increases 70 cents, to \$7.25 from \$6.55 an hour on July 24.

The increase - about \$112 a month for 40-hour work weeks - is coming during a long and deep national recession.

The immediate effect will mean "more money in the pockets of the people who have these jobs," said Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas at Fayetteville.

For businesses, the answer is not so simple.

Because of the economic downturn it will be more difficult for businesses to pass on the increased cost.

Some will try their best to not pass along the increase.

"Businesses don't have a lot of ability to pass their cost increases on to the customers right now, because folks aren't buying [as many goods]. So any kind of cost increase to them is going to have to be absorbed. And with the tight market conditions we're looking at, that's just another burden on the [profit] margin," Deck said.



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Matt Smith, who owns four movie theaters in the state - Market Street Cinema in Little Rock, Searcy Cinema 8, Hot Springs Mall Cinema, and Silver Screen Theatre in Cabot - believes the wage increase will mean higher prices for moviegoers.

"I would expect every movie theater in America to raise their ticket and concession prices when minimum wage goes up," Smith said. "In general, almost all movie theaters across North America employ part-time high school- and college-age people that are students, and senior citizens."

Smith said he would face increased costs from concession suppliers and other companies he does business with, because they'll have to pass on higher wages as well.

Any price increases at his theaters wouldn't be immediate, he added.

"It's not like you're going to go to the movies on July 24 and suddenly concessions and ticket prices are going to cost more," Smith said.

At Ryan Hamra's two Blue Coast Burrito restaurants in the Little Rock area, workers who make less than \$7.25 will receive a raise, but anyone who is making \$7.25 will stay at that level, Hamra said.

Raising prices on the menu will be a last resort, Hamra said.

"I'd look at every alternative," he said.

Most likely, he said, he'll tighten scheduling at his restaurants, rearranging tasks and making sure employees get off the clock more quickly.

That would mean fewer hours for his staff.

Rashauna Thrower, 19, of Little Rock, a college student who's making \$7.25 an hour doing data entry and other tasks at the Little Rock Zoo this summer, lives with her parents and is studying accounting at Arkansas State University in Jonesboro.

"All the money I'm making this summer, I'm saving it to pay for books in the fall," Thrower said. "Whatever's left, I guess I can put it on tuition if my financial aid and scholarship doesn't cover all of that."

Only about 600 people in Arkansas made exactly \$6.55, the current federal minimum, in mid-2008, the most recent information available from the state Department of Workforce Services.

About 11,300 hourly workers made less, which is not necessarily illegal because of various exemptions. About 101,300 made less than \$7.25. (The Arkansas minimum is \$6.25, but when the state and federal rates are different, workers receive the higher amount.)

Nationwide, about 286,000 people made exactly minimum wage last year and 1.94 million hourly workers earned less, according to the U.S. Bureau of Labor Statistics.

The effects of minimum-wage increases aren't limited to those at the bottom of the ladder.

"They sometimes have a ripple effect through the entire pay scale," Deck said.

Right now, "workers don't have a lot of power to go to their bosses and get higher salaries, because unemployment is rising and job prospects are iffy. It's an increase in workers' salaries that they probably wouldn't be able to get for themselves without the federal government's intervention.

"Workers' bargaining power is largely dependent on their ability to go out and get another great job," Deck said.

And the numbers work against that.

The U.S. unemployment rate hit 9.5 percent in June, a 26-year high. Arkansas' jobless rate rose to 7 percent in May - the highest level since September 1992.

Since the onset of the recession in December 2007, the Bureau of Labor Statistics has said, the number of unemployed nationwide has grown by 7.2 million, to 14.7 million.

Business owners are prone to say that paying a higher minimum wage results in less hiring, but studies in general are inconclusive about how minimum wage affects employment, said Jeff Collins, an economist with Streetsmart Data Services in Northwest Arkansas.

"The interesting thing is you don't always see the huge benefits to the working poor you might expect," Collins said. By the same token, "you also don't see the employment impacts that other people" claim.

Studies offer "every answer you can ask for," Deck said.

For example, a study in the 1990s by David Card and Alan Krueger, economists at the University of California at Berkeley and Princeton University, respectively, said an increase in the wage in New Jersey likely had no effect on total fast-food employment there. But a 2003 study by economists at the Federal Reserve and Michigan State University of 17 industrialized countries offered evidence that minimum wages tend to reduce employment rates among young people.

Debates over increasing the minimum wage, Deck said, often include employers arguing that they can't hire as many people at higher wages and others arguing that people who work should be able to support their families.

"We all think folks should be able to work for a decent wage, but at

the same time, this comes at a point when I certainly don't think it fits the flavor of the times," Deck said.

The liberal-leaning Economic Policy Institute in Washington estimates that 2007 and 2008 minimum wage increases have, as of this month, increased consumer spending nationwide by \$4.9 billion. The institute estimates that the current increase will add \$5.5 billion to spending in the next year.

It argues that jobs are created when the minimum wage is increased, because workers can buy more goods and services.

But David Neumark, a University of California at Irvine economics professor, argued in a Wall Street Journal opinion-editorial piece last month for a delay in the wage increase, writing that the "best estimates" from studies since the early 1990s indicate that the current increase will mean 300,000 fewer jobs for teens and young adults.

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