

## RSC Heads-Up: The Minimum Wage Increase and Unemployment

July 2009

*“This raise will make a real, critical difference to millions of people's lives, and that is what America understands. You pass the minimum wage, and you dramatically change life for millions of people.”*

- Education and Labor Chairman George Miller, January 10, 2007

Minimum Wage Increase vs. Overall Unemployment Rate		
Date	Federal Minimum Wage	National Unemployment Rate
January 4, 2007	\$5.15	4.6%
July 24, 2007	\$5.85	4.6%
July 24, 2008	\$6.55	5.7%
July 24, 2009	\$7.25	9.5%*

\* The unemployment rates for 2007 and 2008 are based on July Bureau of Labor Statistics (BLS) seasonally adjusted data. The rate for 2009, however, is based on June BLS data because the July unemployment rate has yet to be released.

On January 4, 2007, when the Democrats took control of the U.S. House of Representatives, the minimum wage stood at \$5.15 per hour and the unemployment rate was 4.6%. On May 25, 2007, the Democrats enacted a plan to raise the federal minimum wage from \$5.15 to \$7.25 over three increments. As evidenced by the above chart, rising unemployment since 2007 has coincided with minimum wage increases. So Chairman Miller was right: life has dramatically changed for millions of people.

On Friday, July 24, 2009, the federal minimum wage will rise to \$7.25 per hour – a 40.8% increase since the Democrats took control of the House. This comes alongside a federal unemployment rate which will have risen by 106.5% over the same period (from 4.6% in January 2007 to 9.5% today). A further increase will impose a financial burden on businesses in the midst of the worst economic downturn since World War II, and will do nothing to help the unemployed get jobs.

According to BLS, since the start of the recession in December 2007, 7.2 million Americans have lost their jobs and unemployment has risen by 4.6 percentage points. The scheduled wage increase could be harmful to the economy. Here's why:

- **Workers without a High School Degree and Minorities Will Continue to Lose Jobs.** Unemployment already disproportionately affects workers without a high school degree and young African-Americans, and it is on the rise.

Minimum Wage Increase vs. Unemployment Rate for Workers w/o a High School Degree and African American Teens			
Date	Minimum Wage	Rate w/o High School Degree	Rate for African-American Teens
Jan. 4, 2007	\$5.15	6.8%	29.2%
July 24, 2007	\$5.85	7.2%	26.4%
July 24, 2008	\$6.55	8.6%	32.0%
July 24, 2009	\$7.25	15.5%*	37.9%*

- **Job Losses Across the Board Aren't Slowing Down.** The July wage increase comes on the heels of an unemployment rate that rose to 9.5% in the month of June – a 26-year high. 467,000 more jobs were lost in June alone – 100,000 more than were lost in May.
- **Spending Isn't Working.** The public debt will double in five years and triple in ten years under the President's budget. Federal spending will amount to \$4 trillion in FY2009 alone, and the deficit is projected to be \$1.84 trillion in FY2009. Despite, and perhaps because of, this massive spending, Americans are still unable to find work. A job creation recovery will necessarily require a stronger private sector.

According to a July 10, 2009 [Wall Street Journal article](#), thirty one states will be forced to raise their current minimum wage because the wages they currently pay, which were just raised last year, are lower than the new federal standard of \$7.25. Many of these states are already experiencing severe budget shortfalls and high unemployment rates. Employers will be forced to fire employees, shorten shifts, or delay the hiring of new employees to make ends meet - thus adding to the unemployment problems they already have.

Conservatives have long argued that increasing the minimum wage impedes growth and is anti-free market. The empirical evidence shows that a raise will be particularly harmful during this economic climate.