

McTevia: Wage increase may not be right time for Michigan

Rising wages force cutbacks

Restaurants, shops across Michigan slash workers' hours, freeze hiring as minimum pay rate edges up to \$7.40.

Jennifer Youssef / The Detroit News

Nobody in the Reineke family is happy about Michigan's first minimum wage increase in 10 years.

Nineteen-year-old John Reineke's work hours at a snack shop at Central Michigan University were cut in half when the minimum wage went up the first time in October, and his family's ice cream shop will employ fewer workers this summer when the wage goes up again.

Like the Reinekes' ice cream shop, businesses across the state -- from small restaurants to colleges to Goodwill Industries -- are bracing for the second bump in the state's minimum in July, when it will increase from \$6.95 an hour to \$7.15. It will go up a third time, to \$7.40, on July 1, 2008.

About 464,000 Michigan workers, or about one in six, will directly benefit from the increases, according to the Bureau of Labor Statistics.

Advocates of the increases say they're long overdue and will help families and the economy in the long run.

But hundreds of businesses -- mostly small and mostly in the service industry, particularly fast food -- disagree. They say they are cutting workers' hours, hiring fewer workers and raising the prices of their goods to make up for the extra expense of the higher wages. Critics also question the timing of the increases, saying they only do more damage to a state already in financial straits.

Small businesses losing

To prepare for the second phase of Michigan's increase in July, Vanessa and John Reineke raised their prices at Doodles Ice Cream & Treats in Hartland 5 percent to 10 percent and will hire fewer workers to make up the difference, said Vanessa Reineke, who has owned the business for three years and paid her employees about \$6.25 an hour before the October increase.

The shop employs two workers in the winter and up to 15 in the summer. Vanessa Reineke said she is already working more hours and expects that to increase this summer.

"In some respects, a wage increase could be a good thing," she said. "But for a small business, especially in this economy, we're losing."

Her son John, a sophomore at CMU, works at one of the campus snack shops to pay for his education and for spending money. Last year, before the first wage increase, he worked three days a week for \$5.50; now he's working one and a half days a week at \$6.95.

CMU has to operate within its budget, even if it means hiring fewer students or cutting their hours when wages increase, said Cali Clark, director of employment and compensation. The next increase in July will bring more challenges, and officials may revisit the issue, Clark said.

Reineke doesn't blame the university and says he thinks management is doing the best it can under the circumstances. But "being the person on the receiving end kind of stinks," he said.

Goodwill Industries of Greater Detroit also will cut back on hiring this summer. It will hire only 25 underprivileged kids to work at the Ben & Jerry's ice cream store it operates for training purposes at the Compuware building in Detroit because it can't afford to pay \$7.15 an hour this summer. Last year, 57 kids worked at the shop.

"We took July into consideration when deciding how many kids to hire this year," said Lindsay Chalmers, director of new business development. "It's tragic to me. It should have been (better) analyzed by the government."

'May not be a good time'

Bingham Farms financial consultant James V. McTevia of McTevia & Associates has mixed feelings on the issue. Although a wage increase is a good thing in other states where the economy is robust, Michigan's economy and business climate doesn't lend itself to increased expenses right now, he said.

"I think the minimum wage will make a lot of (workers) happy, but companies are already operating on a thin margin," he said. "I can only say the timing (of such decisions) is critical and this may not be a good time for Michigan."

Jason Taylor, associate professor of economics at CMU, said a boost in the federal minimum wage would lessen the negative impact of Michigan's increase.

If the federal rate goes up to \$7.25 an hour, as it would under a bill now making its way through Congress, then Michigan would be better able to compete with other states, Taylor said.

Currently, Michigan's high pay rate "is like an albatross around our neck," Taylor said.

Money stays local

Advocates of the wage increase dispute that it will adversely affect the economy.

Historically, minimum wage increases actually have stimulated the economy by putting more money in consumers' pockets, contends Liana Fox, an economic analyst for the Economic Policy Institute in Washington, D.C., a nonprofit, nonpartisan think tank.

The extra money tends to be spent locally at grocery stores and other businesses and generates more business, Fox said. And "because more money is flowing into the local economy, new jobs will be created," she argues.

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