

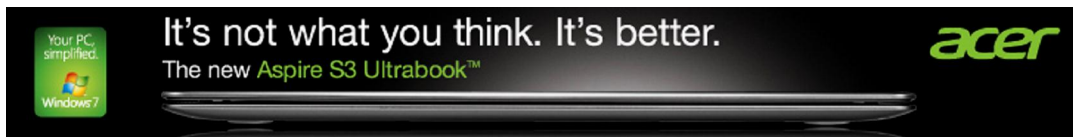
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Dunkelberg: 'To Raise the Cost of Labor, What is Congress Thinking?'

Posted By: **William Dunkelberg, Economics Professor, Temple University**
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William Dunkelberg
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Congress has increased the cost of unskilled labor by 10.7% in the middle of the worst recession since the early 1980s. The unemployment rate is 9.5%. It is unclear how this is supposed to help the economy – unless you are Labor Secretary Solis or the Economic Policy Institute. The claim is that this will produce \$5 billion in increased income and spending. One simple question – where does this \$5 billion come from?

Apparently the Administration thinks it appears from nowhere because if it doesn't, then it has to come out of the pockets of someone else. Where do small business owners get \$5 billion to give to minimum wage workers? Do the funds magically appear?

If so, let's make the minimum wage \$50 an hour, eliminate poverty and stimulate the economy. The fact is that every new dollar a minimum wage worker receives must come from the pockets of business owners and consumers paying higher prices. Minimum wage workers may get more to spend, but other consumers lose an identical amount, there can be no "stimulus" here.



If GM has too many "unemployed cars" on its lots, it reduces prices to get them "employed" providing transportation. But with 14 million unemployed workers "on the lot", Congress raises the price of labor. This defies logic and common sense. The Law of Demand applies to everything, even labor. The higher the price, the lower the quantity taken.

Companies cannot afford to pay workers more than they add to the value of the firm. The higher the minimum wage, the great this hurdle. A higher minimum makes it more difficult for young, unskilled and handicapped workers to get jobs that justify the higher wage now required.

This PERMANENTLY reduces job opportunities for these workers, denying them the opportunity to enter the labor force and get "on the job" training, making

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them more productive workers. Instead, they return to the street corners and the underground economy.

From the Tennessean: " 'The way the economy is now, and for a man who is trying to raise a family, it's not enough' said Julius Stoval, 26, who earns minimum wage as a worker at Shur Brite I Speed Car Wash here. He has two children in Chicago and a third on the way in Nashville." *If the minimum wage is supposed to be a welfare program supported by taxes on business owners and customers (through lower profits and higher prices), it is very poorly focused.* About 40% of all minimum wage workers come from above median income families. They are not "in poverty". The earned income tax credit is designed to help people like Mr. Stoval who has more family responsibilities than he can support.

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The minimum wage is not an effective "anti-poverty" program.

Of course, the estimated \$5 billion increase in wages that results from the increase is just

the start of the problem. A worker hired at the minimum wage last year and who worked hard and got a raise now finds that new unskilled workers get the same pay. Now, a more valuable worker after a year of experience, this individual will be able to get a higher wage with the skill premium included. Thus, the increase will "bubble" through the entire wage structure over time. As prices rise to cover these costs (and they will, firms that can't raise prices will fail, sacrificing all jobs at those firms).

So, here's the bottom line:

- (1) There is no "stimulus" from the increased minimum wage. Every dollar a worker received comes out of the pockets of consumers and business owners.
- (2) A 10.7% increase in the cost of less skilled labor will cost jobs (David Neumark estimates 300,000 for those under 25 years of age).
- (3) A higher minimum permanently reduces job opportunities for unskilled and handicapped workers, denying them the opportunity to become productive members of the labor force.
- (4) The higher minimum requires business owners to pay more for the same labor (with no increase in output), raising unit labor costs which reduces profits in a weak economy, puts pressure on prices in a growing economy.
- (5) A higher minimum is a poorly focused poverty program, missing its target almost 50% of the time.

Less skilled workers losing their jobs are seriously harmed and opportunities for them to get a job in the future are reduced.

If there were ever a bad time to raise the cost of labor, it's now.

What is Congress thinking?

Or, are they?

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William Dunkelberg is an Economic Strategist, Boenning & Scattergood and Chief Economist, National Federation of Independent Business.

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