The Minimum Wage

In January of 2007, the federal government raised the national minimum wage. This was old news in some states where the minimum wage had been raised months before congress took action. No matter how you look at the increase in the cost of labor, it is going to have an impact on the business climate and on how businesses will make key decisions in 2007 and going forward.

In theory a raise in the minimum wage should be a nonevent economically. It should be a simple adjustment for inflation which the business has already adapted to. In fact, as inflation raises the cost of goods and the prices the business charges, one might expect the wages of workers to rise naturally to match that upward slope caused by inflation.

How you view the good or the bad of the minimum wave increase may depend on which side of the fence you reside, the employer side or the employee side. To the employer the rise in employee costs makes doing business more expensive and affects the bottom line. To the employee, the employer is just being competitive and paying his or her employees a salary that they can live on. In many cases, you may be on both sides of the issue if you own or operate a business but have people in your family who are trying to get by on the minimum wage.

The hardest hit businesses by this upward push in wages is small business. Enterprises that employ a large amount of unskilled, lower paid workers can see a huge jump in the cost of keeping employees because of state or federally mandated increases in employee pay. Many times small business enterprises operate on a thin margin of profit and any change to the cost structure can be a deadly hit to their budgets. Moreover, since the small business model is intensely competitive, there is little room to raise prices to clients or customers without risking losing business to a larger competitor who can absorb the minimum wage increase without increasing prices.

These concerns are part of the reason that from a governmental stand point, congress is slow to increase the minimum wage. There is already a tremendous resentment in the population for businesses that are relocating their production or support facilities over seas to take advantage of low paid workers to keep their bottom line on track. You have to know that employee costs are a big issue when a business is willing to relocate much of their operation to a foreign country and incur all of those costs just to tap an employee base that will work below the minimum wage.

From the worker perspective, it’s hard to understand how this trend to take low paid jobs out of the country can be changed. We are slow to stop businesses from taking actions they need to take to compete in the markets which is why passing legislation to stop the exporting of jobs is not a popular idea. While it might help the plight of the worker in this country, it goes contrary to our priority on letting the free market and capitalism play out. Sadly, when the free market does reign, sometimes good people get dealt out of the program.

The best way for American workers to combat competition from unskilled workers overseas is to stop being unskilled. By taking advantage of educational opportunities and gaining valuable skills, they can enter a new market where those skills will land them a good paying job that is not likely to go overseas because of the specialized skills the worker offers to employers. So the best way for government to fight the export of jobs due to high employment costs is not to artificially suppress the market to hinder free trade. The best move is to make our workers more skilled, more valuable and for workers to simply outwork their competition overseas. This is capitalism at work at its best and if that line of attack is followed, the outcome for everybody is a stronger work force, the retention of jobs in America and a stronger national economy as well.

PPPPP 698