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W.M. BR

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Coeditor: Professor Hari Singh, Economics Department

Editorial Board: Professor Dave Hutchison, Finance Department; Professor Jaideep Motwani, Management Department; Professor Paul Thorsnes, Economics Department

Have you ever wondered why five economists usually have six opinions about the economy? In order to answer this question, I often recall the old Persian story of five blind men who went to "see" an elephant. Since each of them could only feel a part of the elephant, they came away with notions that the animal is like a tree, a snake or a wall. The regional economy is like the proverbial elephant, we economist have diverse opinions about it because we sometimes sample or "feel out" only a part of the animal. Moreover, this elephant is continuously changing its shape as it marches towards the next century.

Our short articles attempt to trace the elephant's journey. Paul Sicilian's article assess the impact of minimum wage legislation on the region's labor market. Subsequently, Carol Sánchez identifies by a survey the extent to which regional managers are looking for markets abroad and where new opportunities maybe in the future. Three management professors (Jaideep Motwani, Ashok Kumar and James Jiang) explore the different types of competitive strategies regional companies employ to get ahead in the market place. We have two regular features: The stock market performance of the major companies in the region by Greg Dimkoff and my survey forecast results. Finally, in the last issue of the Seidman Update, we analyzed the impediments to regional public officials cooperating with each other. In this installment, Paul Thorsnes carries this dialogue further by discussing the virtues of market oriented approaches to regional growth problems.

In the previous issue, we indicated that we will continue to paint the picture of the regional economy with different brush strokes. In this installment, we recognize the fact that we are "feeling out" this regional elephant and our efforts, in a sense, will always be partial and incomplete.



Minimum Wages and the West Michigan Labor Market

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Recently, President Clinton enacted a rise in the minimum wage. Nonetheless, minimum wage legislation remains controversial. Advocates of the increase argue that it is long overdue since the purchasing power of the current minimum wage is near a historical low. Moreover, they argue that the increase will not hurt the economy. On the other hand, critics of the increase believe the bill will hurt the very people the legislation is supposed to help--wage workers--since employers will reduce their employment in the face of the mandated higher wage. Also, there is concern that business will raise prices to offset their increased costs. Robert Shapiro, an economic adviser to the Clinton campaign, argues, "Businesses don't simply absorb increased wage costs. They pass them on in the form of higher prices which are regressive because they're borne equally by all." Others argue that a "ripple effect" may result, meaning that employers will attempt to maintain the wage structure within the firm by raising the wages of workers who are already above the minimum wage. This ripple effect, if it is significant, would result in further job loss and price increases. What do economists know about the effects of minimum wages? What will be the likely effects on the local economy?

Until recently, there was near universal consensus among economists concerning the employment effects of minimum wage legislation. Basic economic theory suggests that when the wage rises the quantity demanded of labor will fall. Thus, setting a wage floor above the market wage will cause disemployment. This effect should be largest for low wage workers such as teenagers. A long history of empirical studies has confirmed the theory. By the early 1980s the standard estimate was that a 10 percent rise in the wage floor would cause a 1 to 3 percent decrease in teenage employment--that is, an employment elasticity of between -.1 and -.3 (Brown, Gilroy and Kohen, 1982). Using this estimate, the \$.90 increase (a 21% increase) would