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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.

Hari Singh

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

lower teen employment by between 2.1% and 6.3% nationally. In other words, the proposed hike would cost somewhere between 126,000 and 380,000 teenage jobs.

A recent series of highly publicized studies by Princeton University economists David Card and Alan Krueger calls into question this conventional wisdom. Their best known study is of fast food restaurants in New Jersey. The New Jersey state government instituted a state minimum wage of \$5.05 on April 1, 1992--\$.80 greater than the federal minimum wage. Card and Krueger compared employment in fast food restaurants in New Jersey and northeastern Pennsylvania before and after the increase in New Jersey's minimum wage. They find no evidence of a negative employment effect in New Jersey. In fact, there is some evidence for a small, positive effect Krueger is currently chief economist for the Dept. of Labor. Members of Clinton's administration are undoubtedly referring to Card and Krueger's research when they state that recent research suggests that there will be no adverse employment effect from modest increases in the minimum wage. Nonetheless, Card and Krueger's findings have been strongly criticized on methodological grounds and because of concerns regarding their data. Michigan State University economist David Neumark, working with William Wascher of the Board of Governors of the Federal Reserve System, attempted to reproduce Card and Krueger's New Jersey study using data from payroll records, which they argue is more reliable than Card and Krueger's data. They find a negative employment effect from the New Jersey increase. In fact, their estimate of the disemployment effect is in line with the traditional estimates in that they find an employment elasticity of between -.18 and -.27 (Neumark and Wascher, 1995). Most economists still currently believe that a price floor above the market wage will have a small, but real, disemployment effect.

There are several reasons why the 2.1%-6.3% disemployment effect referenced above overstates the employment effects in the West Michigan labor market. The size of the effect depends on the relationship of the minimum wage to average wages. The greater is the minimum wage relative to the market wage, the greater will be the impact on employment. Wages in West Michigan are high. The average hourly wage in manufacturing the Grand Rapids-Muskegon-Holland area is currently around \$14 compared to a national average of about \$12. Moreover, unemployment rates are very low--around 4%. The tightness of the local labor market has driven wages for entry-level, unskilled jobs above the proposed floor of \$5.15. In these circumstances, then, a wage floor of \$5.15 per hour is not effective.

The analysis so far ignores any wage spillover, or "ripple effects" from a hike in the minimum wage. The July 10, 1996 headline in the *Grand Rapids Press* stated "Ripple effect' seen in low-wage hike" and quotes David Smith, president of the Employers Association suggesting that workers who are currently above the minimum wage may feel they deserve a raise if the minimum wage increases. How important is the ripple effect? Unfortunately, economists know little about the size of the ripple effect. A few studies have found some evidence for a ripple effect but it is difficult to pinpoint the causes of wage changes and so the importance of the effect is unclear. For example, in a less well-known aspect of their research, Card and Krueger looked for a spillover effect stemming from the minimum wage increase to \$4.25. They summarize their findings this way: "The figures provide some support for the existence of spillover effects up to \$4.50 per hour, but little evidence of spillovers beyond \$4.50." Moreover, the importance of the effect was smaller in high wage states. Once again, this research suggests that the ripple effect will be small in the West Michigan labor market.

Minimum wage legislation is a hotly debated topic. House Republican leader Richard Armey promised to fight an increase "with every fiber of my body." President Clinton, on the other hand, argues that the increase is necessary so that working mothers can feed their children. Both sides overstate the importance of the minimum wage. An increase to \$5.15 per hour would still mean that a family of four relying solely on a minimum wage worker would still be below the poverty line. Also, even if we accept the conventional wisdom that generally minimum wages cause disemployment, the proposed minimum wage will have virtually no local employment effect.

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International Business Activity of West Michigan Firms in 1995: Results of First Annual Survey

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In early 1996, the Seidman School of Business sent a survey to managers of 561 West Michigan manufacturing firms located in Allegan, Kent, Muskegon, and Ottawa counties. The purpose of the survey was to learn how and to what extent West Michigan firms are involved in international sales. We chose manufacturing companies because manufactured goods made up 98% of all exports from Michigan in 1993. Also, manufacturing activity in West Michigan is expanding while it is shrinking in other parts of the country, according to a 1996 report of the Grand Rapids Area Chamber of Commerce. One report suggests that exports from West Michigan increased 81% since 1990, and many firms expect export growth to continue. Nevertheless, exports probably represent no more than 5% of sales of West Michigan firms at this time suggesting that there is potential for increased export activity in the region.

Demographics. We mailed the survey to the CEOs of each firm, asking them to give it to the individual who could best respond to questions regarding international business activity. About 100 companies responded to the survey. Most of the companies that responded were located in Kent County (49%), and in Ottawa County (29%). Most companies were small, employing under 150 people (69%), while 4% of companies