

## e-magazine



## Life on the Internet

The fast development of the Internet has not only changed people's lifestyles but also had a deep impact on social structure

## Current Issue

- Table of Contents
- Editor's Desk
- Previous Issues
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## Weekly Watch

## Expert's View

## World

## Nation

## Business

Finance

Market Watch

Legal-Ease

## North American Report

## Forum

## Government Documents

## Expat's Eye

## Health

## Science/Technology

## Lifestyle

## Books

## Movies

## Backgrounders

## Special

## Photo Gallery

## Blogs



## Business

## Business

UPDATED: October 11, 2010 NO. 41 OCTOBER 14, 2010

**Crisis Focus: U.S. Policy, Not Immigration, at Fault**

**The unemployment rate of the United States in August 2010 was 9.6 percent, high by contemporary U.S. standards. As recently as 2007, the average annual U.S. unemployment rate was 4.7 percent. Immigration is being blamed for the present situation. But **Stuart Anderson**, of the Cato Institute and Executive Director of the National Foundation for American Policy, said in the *Immigration Reform Bulletin* that **immigration is not the problem, rather it's U.S. economic policy. Edited excerpts follow.****

In the intervening three years there have been no major changes in immigration policy and, in fact, both the level of illegal entry and the number of applications filed for skilled foreign nationals have decreased in the past year or more.

If immigrants are not the cause of today's higher than normal unemployment rate, then what are the likely reasons the U.S. job market has not bounced back? Economists with a free market perspective point to three likely reasons the unemployment rate has not fallen in the past two years: the continued extension of unemployment insurance coverage, large increases in the federal minimum wage, and anticipated future business costs, including taxes and health care mandates. If you tax something, then you'll get less of it, and if you subsidize something, you'll get more of it. If policymakers appreciated these two economic rules, they would seldom be surprised by the outcome of their decisions. In the case of unemployment insurance, it is ironic that those whose political and policy fortunes have been most tied to the desire for a lower unemployment rate likely have contributed to a higher national unemployment rate through unfortunate choices.

The U.S. Congress, with the support of the Obama administration, has expanded the eligibility for unemployment insurance from the traditional 26 weeks of coverage to the unprecedented level of 99 weeks. That means while in the past after 26 weeks an unemployed person might choose to take a job for lower pay, the same individual could instead afford to wait due to a government guarantee of income. In effect, this has artificially raised the wages an employer must offer to hire that individual—and the wages may be higher than an employer believes are affordable. This creates a related problem: the longer someone remains without a job, the less desirable that individual may become to employers. Multiply this circumstance by hundreds of thousands or even millions of people and it can cause the unemployment rate to be higher than it would be without the many additional weeks of unemployment insurance coverage.

A second reason offered for current high unemployment rates, particularly among younger workers, is the increase in the minimum wage. As George Mason University economist Don Boudreaux explains, "Between 2007 and 2009, Uncle Sam ordered teenage workers (who are mostly unskilled) to raise the price they charge for their labor services by 41 percent (from \$5.15 per hour to \$7.25 per hour)."

A third area likely contributing to unemployment is employers' uncertainty about future tax and regulatory costs. When a small business owner decides whether he can afford to hire more people, he must calculate not only current costs but also anticipated costs. If tax rates or mandated health coverage costs are expected to increase, then an employer knows less money will be available to expand the business and hire more workers.

## Top Story

## Life on the Internet



- Everyone's Internet
- New Shopping Spree
- Innovation Boosting Agriculture
- Exploring Beneath the Waves
- World Corporate Contenders

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- Goodbye, Tai Shan!
- The Tao of *Weiqi*
- Post-Wenchuan Quake Reconstruction
- Heavenly Hainan

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In conclusion, immigration is not the cause of today's high unemployment rates. It makes no sense for members of Congress to attempt to lower the level of immigration to address poor choices made in economic policy.

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