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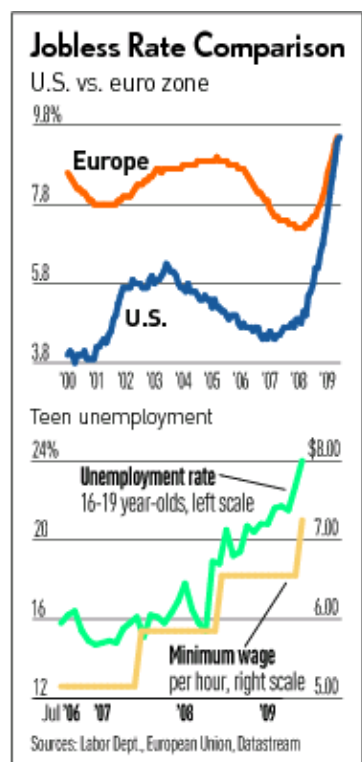
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ECONOMY

Minimum Pay Hike, Other Moves Hurt Job Market Flexibility

By SCOTT STODDARD, INVESTOR'S BUSINESS DAILY

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The minimum wage jumped 11% on Friday to \$7.25 an hour, raising hackles of businesses arguing that it will pump up their costs and force them to lay off more workers.

Meanwhile, Congress is mulling everything from health care mandates to tax hikes to making it harder or more expensive to fire workers. Some analysts warn that these initiatives and the wage hike could erode U.S. labor markets' flexibility, which lets firms cut costs quickly and shift workers to growing sectors of the economy.

"We can go one way and become more European or we can go another way" and take steps such as lowering taxes for small businesses, which generate the most jobs, said Don Rissmiller, chief economist at Strategas Research. "If we don't do that, U.S. companies are probably going to start looking abroad for business opportunities," he said.

The U.S. economy has shed 6.5 million jobs since the recession began in late 2007. Unemployment has hit a 26-year high of 9.5%, equal to the euro zone's, which is typically well above that of the U.S.

But the ability to quickly and cheaply fire staff makes American firms more willing to hire, keeping unemployment low in most times.

European countries have sought to make their labor markets more flexible to match America's higher productivity and employment.

Yet America may be headed the other way. That may worsen what will likely be another jobless recovery, leading to permanently higher unemployment, experts fear.

"The lesson we can take away from the last recession is the more expensive you make labor the more cautious companies become," Rissmiller said.

The House Democrats' \$1 trillion health care plan would slap income tax surcharges on the wealthy, affecting many small-business owners. Firms also would have to provide health care to employees, or pay a payroll tax of up to 8%.

"Economists tend to think of all these mandates as not so much affecting the employers as the employees," said Jeffrey Miron, a lecturer in economics at Harvard and a senior fellow at the libertarian Cato Institute. "For most workers you would expect that to show up mainly as a reduction in wages."

Big Labor's top legislative priority has been the Employee Free Choice Act. Its card check provision would make organizing radically easier by replacing the secret ballot with a simple petition drive.

To woo Senate Democratic defectors, supporters may scrap card check. But EFCA would still include mandatory arbitration that could impose labor contracts on firms.



In this July 22, 2009 photo, Atlanta resident Marilynn Winn holds her paycheck that shows her minimum wage pay of \$6.75 an hour in Atlanta. A federal minimum wage increase to \$7.25 an hour takes effect Friday, July 24, 2009. Winn says she worries that the pay boost could lead her boss to make cuts, especially to older workers like herself. AP

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Many economists say the increases are particularly damaging now as many Americans face salary freezes or even cuts to avoid layoffs.

But some analysts say the minimum wage hike was long overdue.

"It's just a restoration of what the minimum wage was for most of the 1961 to 1981 period," said Kai Filion, an analyst at the left-leaning Economic Policy Institute.

Firms will have to hire workers as the economy revives, says Sophia Koropecy, a labor economist at Moody's Economy.com.

"There will be a pretty strong rebound just because the cutbacks have been so severe," she said.

Shedding staff has also become more expensive. Congress has offered subsidies for laid-off workers that want to keep their health coverage via Cobra. But firms will have to front the cost for months before the government reimburses them.

Extending jobless benefits also raises costs for firms. They pay unemployment insurance based on how many ex-workers get benefits.

One bill in Congress would force companies to give workers 90-day notice before laying off 50 workers or more, vs. 60 days now. There's also been talk of cracking down on firms who give little notice.

"These are all things that make it more expensive to hire," said Drew Greenblatt, president of Marlin Steel Wire, a maker of steel baskets in Baltimore. "The minimum wage (hike) is another anti-small-business and another anti-job plan."

Higher minimum pay hits the low-skilled and young, he said. Teen joblessness was 24% in June vs. 15.1% in July 2007, when the first step of a three-step wage hike took effect.