Labor Pains:
Why We Need to Raise the Minimum Wage
Trends
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Rick Wagoner, chairman and CEO of General Motors Corp. (GM), has a very serious problem. The problem also affects more than 100,000 middle class union works at GM and Delphi, the nation's largest automotive parts maker. In March the two companies reached an agreement with the United Automobile Workers under which they will offer buyouts and early retirement packages to most of their unionized workers in an attempt to reduce their workforces and shore up finances. GM reported $10.6 billion in losses last year, and Delphi currently is operating under bankruptcy protection. Wagoner's dilemma: How to rescue the struggling automaker, which is burdened by high labor costs as well as substantial retirement and pension outlays.

Wagoner realizes the cost structure of manufacturing and selling GM cars, including labor costs of about $65 per hour in wages and benefits, will eventually bankrupt his company. He also knows both domestic and foreign competition preclude the option of raising car prices to boost revenues. In today's global economy, labor-intensive manufacturers of goods and services produced in developed countries such as the United States cannot compete with the output of low-wage, developing countries. To be competitive, the auto manufacturer will need to operate at peak efficiency through maximized automation, while significantly reducing wage costs per worker.

If his firm is to survive, Wagoner also will need to beef up the design and engineering of new products and shift manufacturing of some traditional name plates overseas. These survival tactics can be applied to the entire U.S. manufacturing sector. If successful, such actions will permit manufacturing sales to profitably increase as related domestic employment decreases.

The U.S. Bureau of Labor Statistics (BLS) forecast of U.S. output and employment from 2004 to 2014 predicts that "Goods-producing industries are expected to have no growth in employment as the 1.1 percent annual increase predicted for the construction sector is offset by declines in manufacturing and mining employment." In spite of the employment declines, or perhaps because of them, the forecast of output suggests that strong demand by consumers, businesses and for exports will allow all manufacturing output to grow by 3.5 percent, or faster than it grew from 1994 to 2004. But for the U.S. economy to grow at the 3.1 percent annual rate predicted by the BLS, major shifts in the makeup of its employment base must be facilitated.

These forecasts of economic growth and business opportunities do little to dispel the anxieties of U.S. workers who are losing well-paying union jobs. Even if they sign up for federally funded re-training, skilled auto, aircraft and other laid off workers are unlikely to secure new jobs that pay anywhere near what they earned under their union contracts.

By 2014, about three-quarters of all U.S. jobs will be in service industries. About 60 percent of these service jobs fall into two categories that feature very different educational requirements and earnings potential. One group includes professional, management, business services, scientific, technical consulting and financial occupations that usually require at least some college training but pay well. The other group includes construction, maintenance and repair, material moving, sales and related occupations that typically require less education and pay less. Entrants into many of the jobs in this second group will be competing with recent immigrants, whose availability tends to keep pay scales low in jobs that can be learned more easily and do not require college training.

Not only does the availability of immigrants keep wages low for such jobs, it also reduces the pressure for productivity-enhancing investments in the industries that hire such labor. A paper written by Robert Gordon and Ian Dew-Becker and mentioned in the February Federal Reserve Bank of San Francisco *Economic Letter* found that the labor market reforms enacted in many E.U. countries in the mid-1990s actually had a negative effect on productivity investment because more low-wage workers were made available to firms.

To raise the safety net for workers displaced in the short run as the mix of jobs changes, and to motivate domestic companies to make productivity investments, the United States should adopt a policy not recommended by economists in less robust economic times. To offer blue collar workers, who have earned good incomes because of their union representation, a chance to maintain their middle class living standards and to give trainees the prospect of living as well as their middle class parents, the minimum wage should be raised significantly and now. As the U.S. economy shifts from labor-intensive manufacturing to capital-intensive manufacturing, the cushion of a higher minimum wage will help maintain a healthy middle class.

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