



It's Baaack! Obama's Minimum Wage Folly

When President Obama announced a proposed hike in the federal minimum wage rate in his State of the Union address last week, the reaction was swift. House Speaker John Boehner spoke for most Republicans in condemning the increase (from the current \$7.25 an hour to \$9.00), reminding his colleagues that “when you raise the price of employment, guess what happens? You get less of it.” Added Boehner, “What happens when you take away the first couple of rungs on the economic ladder? You make it harder for people to get on the ladder. Our goal is to get people on the ladder, and help them climb that ladder so they can live the American dream.”



Tough words, considering that America has had federal minimum wage laws for 74 years, and the minimum wage has been hiked 22 times since its inception, most recently in 2009. Nineteen states plus the District of Columbia already have minimum wages exceeding the federal rate, and the first state to enact a minimum wage law was Massachusetts, in 1912. Yet more than a century later, the minimum wage continues to be a bone of contention among politicians, and a source of dispute among economists.

President Obama made no secret of his views on the minimum wage. “No one who works full time should have to live in poverty,” the president told his State of the Union audience.

Many Republicans and business leaders are unimpressed. As William Dunkelberg, chief economist for the National Federation of Independent Business, pointed out, “The higher the price of anything, the less that will be taken, and this includes labor. Raising the cost of labor raises the incentive for employers to find ways to use less labor.”

The minimum wage, in other words, is no different than any kind of price control: In seeking to impose controls on the price of labor, government invariably creates a shortage of same. The allegedly pro-free market Republican Party professes to understand this.

Yet the most recent minimum wage hike was undertaken by none other than Barack Obama's Republican predecessor, George W. Bush, who in 2007 instituted a minimum wage hike to be phased in over two years, from \$5.15 an hour to \$7.25 an hour by mid-2009. And all of this in the teeth of the worst economic downturn since the Great Depression.

What is wrong with having a minimum wage? Simply put, raising the minimum wage prices lowest-paid workers out of the job market. As [Richard Burkhauser](#), professor of policy analysis and management at Cornell University, put it:

The reason [minimum wages don't help workers] is that most minimum wage earners are not the stereotype full time heads of poor families [President Obama] provides but second or third earners



Written by [Charles Scaliger](#) on February 20, 2013

in a non-poor household. The reality is that minimum wage increases are job killers for the very folks whose employment has been hit hardest by the Great Recession and its aftermath, young low skilled workers. These workers have the highest unemployment rates of all Americans and raising the minimum wage will only make it more difficult for them to find jobs in our still weak recovery.

After all, if prosperity can be created by arbitrarily mandating higher wages, why stop at \$9.00 an hour? Why not propose \$20.00 instead? Or \$100.00? Or more? Put in such terms, minimum wage laws are stripped of their mystique; they are merely another of government's numerous financial tricks to persuade their citizens that it is possible to get something for nothing — in this case, more jobs and higher pay simply by decreeing it so.

What too many fail (or refuse) to see is that wealth is not measurable in raw numerical terms, especially in a fiat money regime. If higher wages and prices made us rich, then Zimbabwe's millionaires (the entire working population of that country, whose currency, the Zimbabwe dollar, has endured annual inflation rates that have so devalued the money that notes denominated in billions and even trillions of dollars are now in circulation) would be the world's wealthiest.

In point of fact, having more units of currency does not necessarily make us richer in real terms, especially against the backdrop of a steadily depreciating dollar. It is no coincidence that minimum wage laws worldwide mostly came into existence after the death of the gold standard. In the United States, from 1938 until the present day, the game has been played like this: Government prints money without restraint, year after year, and the resulting inflation causes the value of the dollar to steadily depreciate. Every few years, the federal government mandates a minimum wage increase in an attempt to counteract the damage done by inflation. The economy sloughs off all the low-income jobs thereby legislated out of existence, and slowly reconstitutes them as continued inflation eventually brings the new minimum wage more into line with what the marketplace is willing to pay for entry-level tasks. In the meantime, employers are given a strong incentive to hire undocumented aliens, who will work below minimum wage regardless of its legality.

President Obama, like most other politicians, is undeterred by the facts. In his latest weekly address, he managed, in rapid succession, to appeal both for tax reforms that will encourage American companies to keep jobs in the United States and for a minimum wage hike to guarantee that fully-employed Americans will not have to raise their children in poverty.

Given the nature of our inflationary economy and the popularity of the minimum wage with both Democrats and Republicans, it is unlikely that President Obama's minimum wage proposal will encounter more than token rhetorical resistance on Capitol Hill. Expect a minimum wage hike to add to our mounting economic woes, as politicians continue to do everything but the right thing (keeping their hands off the economy!) in their ongoing bid to legislate us back into prosperity.



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