

# THE DIAMONDBACK

## Minimum wage: Avoiding a foolish mistake

Caroline Carlson February 18, 2013

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During President Obama's State of the Union address on Tuesday, he called for an increase in the minimum wage to \$9 an hour, up from the current \$7.25 national minimum. The proposal resulted in cheers and praise from many members of Congress. As much as increasing the minimum wage is a feel-good idea, it results in terrible economic implications — especially for young, unskilled workers.

The obvious consequence of increasing minimum wage is an increase in unemployment, particularly for individuals who have little work experience and fewer skills. As an example, let's say I have a job generating about \$7.50 an hour for my employer. With a new minimum wage law set at \$9 an hour, my labor would not generate any profit for my employer; rather, my employer loses \$1.50 for every hour I work.

As a result, I could get fired. In order to compensate for the lost labor, my employer could force other employees in his firm (whom he didn't fire) to work more, invest in machines to replace my labor or move his firm abroad to find cheaper labor.

Not only would increasing minimum wage hurt low-skill workers, it could hurt the economy as a whole. Those who support increasing minimum wage usually frame their argument around the term "equality" rather than "efficiency." After all, even if increasing minimum wage hurts some employees, wouldn't the middle class benefit if minimum wage were increased? Not necessarily.

Many economists refer to increasing minimum wage as "erasing the bottom rungs of the career ladder." For those individuals who have few skills and little work experience, it would be difficult to find work if their labor only generated, say, \$7.50 an hour. Because of this, it becomes more difficult for individuals to improve their resume — they won't gain the experience or skills necessary in low-skill jobs to demand higher wages in the future.

Thus, the economy as a whole is worse off because unemployed workers are unable to contribute their labor to the pool of economic productivity. This decreases everyone's chance at economic prosperity, and the unemployed remain in poverty, while those making way more than minimum wage get to keep their jobs. How's that for equality?

Some argue minimum wage should be indexed to inflation. However, minimum wage laws just create further inflation. If a small business is forced to pay more per hour for a low-skill employee, then the cost will be passed on to the consumer — prices of goods and services the business provides will go up. The buying power resulting from increased wages is depreciated by the increased cost of goods and

services. This argument is also why increasing the minimum wage might not make it easier for people to afford a higher standard of living.

Although proponents of higher minimum wage laws claim they want to fight poverty, this increase could spur more poverty, as low-skill individuals will have a tougher time becoming employed. A 2012 study by the Cato Institute concluded that previous minimum wage laws had little to no effect on poverty levels, meaning increasing minimum wage isn't going to solve issues our country faces with poverty and resulting crime and violence. Additionally, in 2009, when the minimum wage increased by more than 10 percent, approximately 600,000 jobs in the teenage workforce disappeared, according to Breitbart.com.

Although minimum wage laws seek to help poorer members of society, it actually hurts them by increasing unemployment, increasing the prices of goods and services and hurting economic productivity by establishing a price floor that may be higher than market wages.

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