

All Aboard the Inflation Express!

By [The Mogambo Guru](#)

01/22/07 **The Daily Reckoning PRESENTS:** There is a monster under the bed of America that threatens to eat us in our sleep...minimum wage. For ten years he's been held at bay, but now he's being tempted to rise up and bring his evil friend inflation along with him. Can anyone stop him? We leave it to our resident monster slayer, The Mogambo Guru...

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The Congressional action on raising the minimum wage by 40% over two years is perhaps what prompted the article "For \$7.93 an Hour, It's Worth a Trip Across a State Line" by Timothy Egan. The essence of the story is "In Washington State, the minimum wage is 54 percent higher than in Idaho. Businesses at the dividing line are a real-life laboratory for the effects of an increase."

After a lot of background information, Mr. Egan concluded, "raising prices to compensate for higher wages does not necessarily lead to losses in jobs and profits." I admit that that is true, as few things are "necessarily so" in anything, especially economics.

But what I know for Freaking Mogambo Sure (FMS) is that if the businesses do not raise prices to cover their higher labor costs, then they will make less profits. It's not economics; it's simple arithmetic. He concludes as much when he admits, "Business owners say they have had to increase prices somewhat to keep up."

Aha! There! There it is! There is the reason NOT to increase the minimum wage; prices will go up! "Business owners say they have had to increase prices." He admits it! And if you don't think, like little Timmy here obviously doesn't think, that inflation is the thing to be feared above all else, then I know that you are young, or ignorant, or stupid, or else you would know that there is nothing worse than inflation, as it is a killer of economies. It's THE real killer of economies! And nations, too!

So now get a load of this: The kid even quotes some guy named Fazzari who says, "If you look 10 years down the road, we will probably have no minimum wage jobs on this side of the border, and lots of higher-income jobs." Hahaha!

What he is saying is that everybody else in the whole wide world is so sublimely stupid, that we will voluntarily stay where we are, working at our dumb, dorky job for a hateful, pinheaded boss, all for less money, instead of moving to the Washington/Idaho border where they pay more! Hahaha!

If not everyone is as stupid as I am, and did move there, then the increasing numbers of job-seekers would drive the cost of labor down to the minimum, by the simple expedient of an oversupply of labor and profit-maximizing employers! Jeez! This stuff seems so obvious to me!

Timmy-boy, obviously not realizing how utterly ridiculous this whole idea is, chimes in with “Job figures from both states tend to support his point.” Hahaha!

He sees the skepticism in my face and contempt in my voice, and retorts, “Several studies have concluded that modest changes in the minimum wage have little effect on employment.” I leap to my feet and exclaim in exasperation, “Again, Mr. Egan, employment is NOT the issue! You already concluded earlier, and I admitted, that rising wages doesn’t necessarily result in job losses! Inflation is the only issue!”

I’m thinking to myself, “The little moron can’t seem to comprehend that inflation has gotten so bad that the minimum wage is practically no income at all, but he blithely ignores the additional inflation that will be caused by raising the minimum wage! He figures it is not even worth talking about, I guess!”

He ignores me completely, and defensively says that some university egghead named David Holland said, “Job loss was minimal when higher wages were forced on all businesses.” Again with the job loss thing! He’s like a broken record! But even so, he admits there WERE job losses! “Minimal” job losses as they may be, we still end up with less jobs and higher prices by raising the minimum wage! My God! I scream anew, “What in the hell is the matter with you people?”

Perhaps at my insane persistence at always bringing inflation into the discussion, he again admits, “business owners have found small ways to raise their prices,” but I guess that is all okay with everybody (as ludicrous as that sounds), as “customers say they have barely noticed.”

To prove it, he quotes a Mr. Singleton, who owns a pizza place, who says, “We used to have a coupon, \$3 off on any family-size pizza, and we changed that to \$2 off. I haven’t heard a single complaint.”

Memo to Mr. Singleton: the complaining is done in the parking lot and on the way home, where the missus says, “It seems that we used to eat here for \$15. Now it’s \$16, plus another 20 cents on the tip! That’s, in total, an 8% price hike! And their pizza just doesn’t taste as good as it used to, either, now that I think about it! And I think he is using cheaper ingredients, too, the little illegal-immigrant bastard!

“And now that I think about it, YOU aren’t as good as you used to be, either, buster! And slow down, slow down, slow down, you idiot, or you’ll get a ticket, like that’s just what we need around here! And let me tell you that you ate your pizza like a disgusting gluttonous pig, making these slobbering noises and yammer, yammer, yammer!” And the husband hears this, and thinks to himself, “Well, a higher price means we can’t come here as often, which is good news since I won’t have to listen to her irritating voice as much!”

And it is not just the expense of higher labor costs that will drive prices up and customers away. Other related costs will go up as well, as unemployment compensation insurance and all of that other worker-protection stuff is figured as a percentage of payroll.

Additionally, the employer is responsible for half of the Social Security/Medicare tax on those wages, so another 40% raise in the minimum wage will cost the employer another 16 cents an hour in higher payroll tax alone for each worker, or about \$330 a year.

All of this, and more, means that a higher minimum wage will result in higher prices, which is the thing that is bedeviling people in the first place! It doesn't stop inflation! It merely temporarily (a couple of years) partially compensates less than 1% of workers for the disastrous declines in their living standards due to the ravages of inflation, while making life more expensive for everyone else in the whole freaking country, further absolutely impoverishing those who do not have a wage to increase! What a cruel trade-off!

And everybody else up the line will want more money, especially the guy who used to make 40% more than minimum wage, and who will now, thanks to the increase, make only the minimum wage! Hahaha! Welcome to the hell of inflation!

But this, sadly, is the sorry course that the corrupt, incompetent Congress has decided on, instead of doing the right thing and forcing the Federal Reserve to hold money supply growth (and thus inflation) at a constant of "zero", which is optimal.

So buckle your seatbelts on the Inflation Express, because it will be a hell of a ride from here on out!

Until next week,

The Mogambo Guru
for The Daily Reckoning
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**** Mogambo sez: Money is fleeing hither and yon around the world, going here, then going there, making this go up in price when it comes, and that go down in price when it goes.

This is how the whole thing shakes itself apart, and then how everyone belatedly realizes that gold would reign supreme in the end, like it always has, and like it always will, and that a stable money supply that is guaranteed by the gold exchange standard is the only way to keep the government from letting the banks kill all of us again the next time, because it is too late for us this time, and that is why you gotta – you just gotta! – get silver or gold, or both, Right Freaking Now (RFN).