

Effects Of Minimum Wages

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Introduction

The minimum wage is the bottommost payment that is being paid to the worker by their employers. Consistently, it is considered as a point below where the workers cannot sell themselves for the work. Minimum wage is the basic pay rate of the employee for ordinary hours worked. Industrial instruments mainly affect the minimum wages for employment. Minimum wage law is applicable in many countries, and the employee cannot even pay less even if they agree to do so. The basic purpose of minimum wages is to protect the unduly low pay of the workers. Minimum wages are also considered an essential element of the government policy for reduction in the poverty of the nation and for providing equality between both men and women. Minimum wages include compensation towards the inflation increase rate, which results in leaving many workers behind economically. Minimum wages can either increase the living standard for the workers, reduce inequality, and boost morale, or it can cause the reason behind unemployment, increase poverty and damage the industry.

History

Minimum wages got the massive support of many economists in 1938 when it was first declared as part of the Act of Fair Labor Standards. Between 1930 and 1940s, economists assumed the fact about the slope downward curves of demand, but at the same time, they were aware of the lack of bargaining power of the workers (Krueger, 2015). Employers had a preference to set pay for the workers who possessed equal skills and were doing the same job. New Zealand made their first national law on the minimum wages in 1894. The British placed their first law of minimum wages in 1909 in the Trade Board Act, which set a minimum wage range that was enforced legally in all industries. The main reason for setting this act was the provision of minimum wages in most industries that have a history of low wages due to the surplus of workers available. The Trade Board Act first applied to the paper-box-making, chain-making industries, and lace machine-making and finishing trade industries, with almost 70% of the workers being female. Finally, the National Minimum Wage Act, which was launched in 1998, set the minimum wage at about 3.60 dollars per hour for workers, and it affected the high turnover of industries, including restaurants and fast food. In the United States, the minimum wage law was launched in 1960 as a part of the Alliance for Progress.

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The labour market standard model predicts that the increase in wages may result in the job loss of workers who are not well-skilled. An obligatory minimum fee that has been set higher will result in a

reduction in employment opportunities. The first reason for this aspect is that employers may substitute labourers with lower skills than workers who are able to provide high output. The second reason is that higher wages result in less demand for the product and, eventually, less demand for labour (ProCon.org). The increase in the minimum wage may lead to hiring workers with high skills. Moreover, in some situations, there is limited worker mobility, due to which the employers have certain discretion in setting the wages. Due to this perspective, the effect of the minimum wages becomes ambiguous.

By using the national variation in the United States, if the minimum wage increases by 10%, then there is a chance of a reduction in the employment of teens by 1 % (Ilo.org). Some economists proposed that the high minimum wages impose a wage floor that sets the labourers out of the market, resulting in a reduction of the low-wage jobs pool. Higher minimum wages can be destructive for persons having no specific skill in the work and have limited experience in the work, due to which the youth and minorities mostly suffer. For example, if a company require someone to do a specific odd job for about 2 dollars because the work value is no more than 2 dollars per hour. If the minimum wage is raised to 7 dollars per hour, then the employer of the company will never hire someone to do the job of 2 dollars in 7 dollars.

Supporters of higher minimum wages state that the minimum wage, as proposed by the federal government, is too low, at almost 7.25 dollars per hour. An increase in the minimum wage may result in the creation of more jobs and the growth of the economy. The decline in the value of the minimum wage is also the primary cause of inequality between middle- and low-income workers. Moreover, the majority of Americans, including a slim majority of self-defined progressives, are in support of an increase in the minimum wage. Furthermore, if the workers earn more money, then their dependence on the government will decrease, resulting in the reduction of the government's spending on welfare. At the same time, many opponents are arguing against this perspective. Many businesses are not able to give higher wages to their workers because it may affect their business and will result in the layoff of the workers and also in the reduction of the hiring of the workers (Economicshelp.org). Moreover, the raising of the minimum wage will eventually result in the rise of the prices of consumer goods. A study by Purdue University states that increasing the minimum wage by 15 dollars will result in an increase of 4.3% in fast food restaurants, and the size of hamburgers would also decrease.

Minimum wages have been increased in many areas of the world where the cost of living is high. In California, the minimum wage was higher from 6.75 dollars in 2006 to 10.50 dollars in 2017, and it is being assumed that the minimum wage will rise to approximately 15 dollars in 2022. Due to the increment of the minimum wages from 2006 to 2017, there was an increase in the earnings of limited services restaurants by more than 10%, but it reduced employment by almost 12% (Talent Economy). Regardless of this, some companies are engaged in raising their minimum wages nationwide. Walmart announced that it will raise its minimum wage by about 12 dollars per hour in the whole nation.

Conclusion

Minimum wages have a substantial impact on society and the economy. Increasing the minimum wage can result in the rise of the living standards of the employees, the reduction of poverty, and the creation of equality in the wages of lower and middle-class employees. Higher minimum wages may also result in the loss of business and an increment in the unemployment ratio because small companies cannot be able to afford the workers at higher minimum wages. So, governments need to establish some strategy by which the employees can work for higher wages and where industries may not be subjected to the risk of getting out of business.

Work Cited

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