

Analysis on the Disadvantages of Minimum Wage

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Abstract: A wage is the core economic right and interest of employees. The emergence of the wage problem is that after the society entered the industrial time, there appeared a labor group that made a living by selling labor. In the international labor relations theory, the minimum wage has always been a common practice, and the minimum wage system has also become an important part of the government's labor policy. However, the actual effect of this system is not satisfactory, which in a sense has violated the original intention of the government to formulate the minimum wage system, and the question on “minimum wage” or “maximum wage” undoubtedly explains the embarrassment of the system well. Mainstream economists have never stopped criticizing the government-led minimum wage system. Either the minimum wage system destroys the basic law of market economy, or the minimum wage system contributes to unemployment. This article will analyze why the minimum wage system needs to be abolished from the impact of the minimum wage system on employment and its effectiveness.

1. Introduction

The topic of whether minimum wage should be abolished or not has been around for quite some time. Many have advocated, and continue to do so, that the complete eradication of minimum wage will lead to the exploitation of labour: employers will simply make their employees work for longer hours under harsher conditions and pay less than adequate remuneration in return. There's no denying that this side of the argument makes sense, however, a closer look reveals that minimum wages have caused more harm than good; needless to say the massive disruption they wreak in the functioning of the free-markets in capitalistic economies such as the United States (US) and the United Kingdom (UK). So why the concept of minimum wage should be dumped forever? Let us discuss this in detail below.

2. Advantages of Minimum Wage

Let us first understand what minimum wage is. According to the most common definition “a minimum wage is the lowest remuneration employers can legally pay their employees-the price floors, below which the employees may not sell their labour [1].” This is done to ensure that workers get optimally paid what they deserve in return for their labour. If a company is paying its labourers anything less than the minimum wage, despite zero change in working hours, it is considered exploitation. Government and trade unions can take legal action against such violations or violators. Although I denounce exploitation on all grounds, I still believe that curbing it with the help of minimum wage is least effective and leads to graver consequences for employees.

2.1. Increasing Unemployment Rate

Years ago, in 1992, a survey of economists revealed that 79% agreed minimum wage gave rise to unemployment among young and low-skilled workers [2]. They weren't altogether wrong. The minimum wage does increase joblessness. So here is how it works: when governments impose a minimum wage restriction, employers are compelled to pay the bare minimum to their employees (nothing below that). For example, if a retail store is ready to hire George they will have to pay him the minimum wage of \$10 an hour. However, George's skill sets are not satisfactory and the

company feels that the deserving price for his service is \$7, yet the store will have to pay \$3 more due to the price floor. The outlet will be left with no other choice but to hire George, and as a result, it will look for other indirect, less effective methods to compensate for their loss. Often this means they will increase the price of their products. If the retail store increases the price of its items by \$1, the hike may lead to a decline in sales as customers would be reluctant to shell \$11 for the same product that was available for \$10. This disrupts the demand and supply ratio and may result in losses for the company. The company may look for other ways to counter the losses and ensure continuous gains. One of them would be reducing dependence on manpower. A firm will begin to lay off their least valuable employees, thereby reducing the number of minimum wage salaries to be paid. Although this may lead to an increase in the salaries of highly skilled workers, it means those with inadequate expertise will lose their bread and butter.

2.2. Investment in Automation

In recent years, with the continuous progress of science and technology, intelligent and technological machinery and equipment have emerged constantly, which not only improves work efficiency, but also brings certain influence to people's employment. With the use of intelligent robots, robots have replaced laborers. Robots are widely used in industrial fields, and some simple and repeated operations have already replaced manual operations.

To make up for the vacant spaces and a fall in efficiency, a firm will invest in automation. Economists are concerned that technology will increasingly replace labour and put many out of work. However, from a company's point of view, maintaining profits is vital for its survival and they aren't unjustified in doing so. If we take the example of the retail store once again, the store will replace its cashiers with self-checkout tills, which will be more accurate and reduce the room for human error. Through investments in automation, a company won't have to increase the prices of its good and can maintain efficiency at the same time. However, this method will put the livelihoods of many at risk and for this very reason, the concept of minimum wage should be abolished [3].

2.3. Its Repeal Does No Harm to the Wage of the Vast Majority

An article published by the department of economics of the IOWA State University states that if minimum wage laws were repealed, the vast majority of U.S. workers would have their wages undisturbed. (Kreider, B.) It is because "through supply and demand, competitive market forces drive up wage rate of most workers to levels considerably above the current federal minimum rate of \$7.25 an hour." Furthermore, most workers are not willing to work for less than \$7.25/ hour, states Kreider. While having minimum wage can help alleviate poverty by protecting the vulnerable from being exploited, the threat from unemployment looms large nevertheless. A study published by the nonpartisan Congressional Budget Office (CBO) estimated that raising minimum wage to \$10.10 an hour would lift 900,000 families out of poverty and increase the incomes of 16.5 million low-wage workers. But there's a bigger downside to this. The report further assumes that the proposed wage hike would reduce total employment by about 500,000 workers over the next two years-which can be more damaging in the long run [4]. Five of the most developed nations: Sweden, Denmark, Iceland, Norway and Switzerland, do not have a legal minimum wage set by the government. The minimum wage here is set by industry through collective bargaining. The working population in these countries is highly unionized and these trade bodies negotiate and decide the baseline pay for the workers. Poverty and unemployment continue to remain at their lowest in these nations, proving the fact that a uniform minimum wage set by the government is not always necessary [5] . Currently, the U.K. minimum wage is £8.20 per hour for those aged 21 and above (w.e.f April 1, 2020). In the U.S., the minimum wage is set at \$7.25. (The figures may differ region to region)

3. Conclusion

The system logic of implementing the minimum wage is extremely simple. As far as society is

concerned, fairness and efficiency are its two basic goals. The relationship between them can be simplified as that efficiency is the foundation and fairness is the goal. Efficiency without fairness or fairness without efficiency is an unsustainable social development model. If the minimum wage system fails to achieve the increase of employment rate and occupational fairness, then I think we need to abolish this system.

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