

Minimum Wage Withdraws from the Economic Stage

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Abstract: The minimum wage system is a system that controls the wages of ordinary working groups by means of national coercive force, which should meet the basic living needs of workers themselves and their family members. There are many arguments about the abolition of the minimum wage system, with opponents and pros holding their own opinions. Some people claim that Increases in the minimum wage may stimulate macroeconomic growth if productivity is shifted toward more highly-skilled sectors, possibly by inducing additional training for low-skilled workers. While opponents believe that Minimum wages are not well targeted to poor or near-poor individuals across the business cycle. This essay supports the idea that the minimum wage should be abolished.

1. Introduction

The minimum wage should be abolished. On the one hand, the salary is determined by the market in most countries nowadays and it has little influence on the actual salary level. On the other hand, the minimum wage was set to protect laborers' basic needs, however, it could be a barrier to companies hiring workers in practice. The minimum wage is a kind of price floor, but it also has some drawbacks. One of its disadvantages is that it affects the operation of the free market. The second drawback is that the disadvantaged groups may be sacrificed: under the influence of the minimum wage, employers will tend to choose workers with good health and higher skills, which virtually reduces the living space of the disadvantaged groups in the labor market; The third drawback is that the minimum wage standard may make it difficult for laboring advantages to be brought into play: the government's intervention in wage-market price information may lead to distortion of market signals; direct intervention in labor market operation through the minimum wage law will lead to inefficient allocation of labor resources, and the implementation of the minimum wage standard may lose some competitive advantages. Therefore, the minimum wage exists in name only. It should be abolished to activate the market.

2. Benefits of Abolishing the Minimum Wage

Generally speaking, the main defects of the minimum wage system are of several aspects: Aggravate unemployment; The anti-poverty effect is not obvious; The role of regulating income distribution is limited; Restrict human capital investment; Easy to be boycotted by business owners; Weaken the export competitiveness of domestic products. Therefore, it is of great significance to abolish the minimum wage.

2.1. Benefits for the Inferiors

The first benefit of abolishing the minimum wage is good for the inferiors. If we were to eliminate the minimum wage right away, there would be a lot of people who would suddenly qualify for minimum employment because they would have fewer skills and therefore be paid less, and they would suddenly be very popular in the labor market. Such people may rely on social welfare, because their skills are so weak that companies won't even pay the minimum wage to hire them. But with the abolition of the minimum wage, companies will be able to offer lower wages, and these people will have a chance to work. In this case, there are even other benefits, the people that I mentioned, when they get the job, can acquire more skills in the work environment. Their lack

of skills makes them not qualified for the higher wage standard, which is a big reason why they were unemployed before. Now they have the opportunity to acquire more skills and learn them on the job.

In this way, those who previously relied on the welfare system will gradually become self-sufficient, and of course their lives will become more hopeful, and their self-esteem will follow. They can finally improve their skills through work, and they can finally lift their families out of poverty through their own ability. They can choose too if they want, because no one is going to force them to lose their jobs.

2.2. Benefits for the Companies

In recent years, due to the impact of the pandemic and the corresponding economic crisis, the current financial situation is not promising, and personnel have become one of the heaviest burdens for enterprises. Employee salaries and benefits are a big expenditure of companies. Especially for some small businesses and some specific jobs, such as sales and workers at marketing positions, the minimum wage increases the burden on many small businesses. In addition, the state stipulates those enterprises cannot easily lay off workers, which makes enterprises dare not easily employ people. I have seen an interview program before, a boss said: now do the enterprise, anything can be more, but employees cannot be more. For the market economy, the minimum wage standard should be abolished. Wages belong to the matter of labor and capital and should be settled through negotiation by both sides in accordance with the laws of the market economy, rather than a minimum wage standard set by the government. Layoffs are also the corporate behavior. An enterprise's layoff due to its poor performance is completely a corporate behavior, which is adjusted by the enterprise itself according to the laws of market economy and corporate benefits, and the government should not intervene. If the government imposes a minimum wage on companies and does not allow them to lay off workers, they may face losses that could lead to closures. If companies go bankrupt, where will there be jobs?

3. Researches on Minimum Wage Policy

Stigler, the winner of the Nobel Prize in Economics, was the first to make a special study on the minimum wage policy. In his paper “Legislative Economics of Minimum Wage” published in 1946, Stigler drew a conclusion that minimum wage system would lead to the increase in labor supply and the decrease in demand, which would then lead to unemployment [1]. Such a security system designed to reduce poverty is not effective in reducing poverty, but distorts the allocation of resources.

Xue Zhaofeng, who once worked in the Law School of Northwestern University in the United States, was the first to write an article opposing the minimum wage policy in China. On April 9, 1999, he pointed out in the article “The Minimum Wage System in Britain”, It is impossible for employers to employ all those previously employed below the minimum wage, so the jobs of the lowest-paid people in society are threatened as a direct result of the minimum wage system [2]. Low wages have improved, but unemployment has risen accordingly. Those are the people most vulnerable to unemployment.

On April 25, 1996, Buchanan, another Nobel laureate in economics [3], withholds that the inverse relationship between demand and price is the central proposition of economic science [4]. No physicist would say, ‘Water goes up’, or no self-respecting economist would say, “Raising the minimum wage creates more jobs”. This statement, if seriously developed, will be tantamount to a total denial of economics, so that its scientific meaning is no longer existing, if so, economists have little choice but to write articles that appeal to ideological preferences.

4. The Impact of Minimum Wage

4.1. The Impact of Minimum Wage on the Private Sector

China's private sector - which has been revving up since the global financial crisis - is now

serving as the main driver of China's economic growth. The combination of numbers 60/70/80/90 are frequently used to describe the private sector's contribution to the Chinese economy: they contribute 60% of China's GDP, and are responsible for 70% of innovation, 80% of the urban employment and provide 90% of new jobs. Private wealth is also responsible for 70% of investment and 90% of exports [5]. But it is the private sector that is most hurt by the minimum wage.

The increase in the minimum wage are associated with statistically significant reductions in the probability of remaining employed across all specifications and across all control groups. Our preferred specification is the Column 4 panel estimates based on the wage gap methodology because the wage gap methodology takes account of the actual wage increase induced by the minimum wage increase and the panel estimates control for individuals and year fixed-effects as well as city-specific time trends and macroeconomic factors. Our preferred control group is the MinWage +80 RMB because that is the group that did not experience a minimum wage increase but is given a hypothetical minimum wage increase close to the average increase of 78 RMB. Based on that preferred specification and control group, the minimum wage increases that occurred over that time period are associated with a 0.028 reduction in the probability of being employed in the subsequent period [6].

4.2. The Impact of Minimum Wage on the Wage Spillovers

Wage spillovers when utilizing the substantial variation in both the magnitude and frequency of minimum wage changes that have occurred in China since its new minimum wage regulations in 2004 to estimate their impact on wages. Using county-level minimum wage data merged with individual-level longitudinal data from the Urban Household Survey for the period 2004-2009, spanning the period when the new minimum wage regulations were in place, the results indicate that minimum wage increases raise the wages of otherwise low-wage workers by a little less than half (41%) of the minimum wage increases [7]. We also find statistically significant but very small wage spillovers for those whose wages are just above the new minimum wage, but they are effectively zero for those higher up in the wage distribution.

The employment results indicate that minimum wage increases also have the unintended consequence of reducing their probability of being employed. Based on a variety of different specifications and control groups, the adverse employment effects from the minimum wage increases that occurred over the period are all statistically significant and fairly substantial in magnitude [8]. Depending upon the specification, these wage effects also lead to a 2 to 4 percentage point reduction in the probability of being employed, with a 2.8 percentage point reduction being our preferred estimate. Such adverse employment effects also corroborate our previous wage increase estimates since there should be no adverse employment effect if there were no wage increases.

5. Conclusion

We find statistically significant but quantitatively very small positive wage spillover effects that are confined to groups only slightly above the new minimum wage. The spillover wage effects are so small, however, that the reasonable conclusion is that minimum wage effects are largely confined to the wages of those whose wages are directly affected by the minimum wage increase in that they fall between the old and the new minimum wage. Clearly, China faces a trade-off that is typical in economics. Minimum wages help to raise the wages of low-wage workers in China, but at the expense of reducing their employment probability. There is no such thing as a free lunch for raising minimum wage in China.

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