

The Demand of Abolishing Minimum Wages

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Abstract: The minimum wage is only expressly stipulated by the national law. Under the premise that the laborer provides a normal cloud roof of the legal working hours or the working hours agreed in the labor contract signed according to law, the wage that the employer should pay within the minimum limit according to law, which is enough to maintain the basic living needs of the employees and their average support population, is the legal minimum wage. The purpose of this system is to promote employment by setting a minimum wage standard, and to ensure that low-skilled workers can earn incomes not lower than this standard. At present, many people think that this policy made in good faith ignores the unemployment effect under the minimum wage, so they call for the abolition of this policy. This article will prove the necessity of abolishing the minimum wage in many aspects.

1. Introduction

For more than one hundred years, workers have organized strikes demanding a minimum wage. The first national laws securing minimum wage were introduced into New Zealand in 1894. After this, more countries in the rest of the world have followed New Zealand's example. The principle that supports minimum wage laws is quite simple: the government protects low-income workers by intervening in the economy and setting the lowest price for labor in the market. Its purpose is for the government to ensure that workers can secure their living needs through their employment. Unfortunately, this strategy is not as effective as many imagine. It renders the employer to cut work hours, raises the cost of labor, cuts job opportunities, lowers profits and this is especially damaging for small businesses. There is no concrete evidence proving that an increase in minimum wage reduces poverty levels. Another disadvantage is that it makes low-paying jobs look more appealing. It stifles the flexibility of entrepreneurs to adopt new ways of employing people out of the job market.

2. Why We Should Abolish Minimum Wage

The government should thus abolish the minimum wage, as the establishment of this law corners vulnerable people in poverty, stifles the development of firms and inhibits social development. Social development focuses on improving individuals to reach their full potential by removing barriers that inhibit social growth and increasing the standard of living of the people.

2.1. Minimum Wage Pushes the Disadvantaged Group to A Worse Situation

The Implementation of minimum wage laws ends up hurting the interests of low-income groups. People usually see minimum wage as a vehicle for redistributing some of a company's profits back to its workers who are at the low end of wage distribution. However, the fact is that the implementation of minimum wage laws has caused low-paying job seekers no longer to find jobs. "Increasing the price of low-skilled labor tends to reduce the company's interest in hiring low-skilled labor [1]." This situation comes from the most basic of economic models - supply and demand. This model states that if inputs of a product become more expensive, producers will produce less [2]. In a competitive market, firms are assumed to maximize profits. So the principle that the enterprise should use for running the business is profit maximization, which means that the

marginal revenue of the product must be equal to its marginal cost ($VMPL = \text{market wage, or } MRP = \text{Wage}$) [3]. Based on the formula above, we know that there is a positive correlation between the productivity of labor. Workers with a capacity for higher production are associated with higher wages. Therefore, in order to maximize the utility of firms, laborers “must use their own efforts to repay the profits” they earned correspondingly [4].

However, minimum wage laws violate this principle by providing a higher wage to those whose output does not necessarily equal the value of their wage. “Each person should be allowed to pursue his or her own notion of good and be responsible for that notion,” which means that low-income groups are satisfied with their current income, however, the government judges that their wage is too low and arbitrarily elevates it. In this circumstance, firms will decrease their demand for the labor, eliminate those workers with only low productivity. This action adversely affects the government’s original aims to protect low-income groups because in this model employers are disincentivized from employing many minimum-wage workers, and the latter end up losing their jobs.

In other words, if the law stipulates that minimum wage causes labor costs to rise, employers will “tend to choose healthy and skilled workers”, not necessarily minimum-wage workers [5].

As a result, vulnerable groups that the law should protect - those whose skills are currently insufficient to create the same value as the minimum wage - will be squeezed out of the labor market. Thus, the minimum wage runs counter to its original intention and harms the interests of disadvantaged groups. One example is that of David Neumark and William Wascher who estimate the employment effects of changes in national minimum wages using a pooled cross-section time-series data set comprising of 17 OECD countries between the years 1975 and 2000 [6], and they found that there is a negative co-relationship between the minimum wage and the employment rate of the young, who are one example of a disadvantaged group. Young people are the drivers of a country’s economy and the higher rates of unemployment of this group result in various challenges, for example, when youth enters a labor market, finding and sustaining a job becomes difficult. Deprivation of jobs results in social exclusion and isolation which affects the health of the young. It results in loss of human capital and diminishes social growth. In many countries, the GDP could be 10-15% higher without unemployment. This finding is in line with the fact that the minimum wage causes the quality of life for the lowest income groups to worsen.

The implementation of minimum wage is not as moral as its principles claim [7]. Some people seek private interests through the language of “protecting workers’ welfare”, which hurts the interests of the poor. For example, the clothing union, Amalgamated Clothing Workers of America (ACWA) in the United States has vigorously advocated for increasing the minimum wage, saying that this is to protect new immigrants and young people from being “exploited” by low wages. In fact, as already established, if the minimum wage is raised, most new immigrants and young people will lose their jobs, which is beneficial to whites and middle-aged people who already have higher incomes. Another example is that labor unions in the Northern United States, where wages are higher, and the South, where they are lower, are pushing hard for higher wages. Why is that? Since wages are already high in the North and labor is not as physically intensive, raising the minimum wage would have little impact on costs (why is this?). However, in the labor-intensive South, raising the legal minimum wage would increase costs and erode competitiveness. Not only that, the minimum wage also encourages discrimination against marginalized groups. Thomas Sowell further explains in his book, *Basic Economics* (1948). The unemployment rate for Black Americans aged 16 and 17 was no higher than that for white men of the same age. After just a series of increases in the minimum wage, Black American teenage unemployment has not only skyrocketed, but is more than twice that of white male unemployment [8].

Lots of people think the minimum wage will benefit the poor, however, “the costs of the minimum wage were largely passed through to consumers” [9]. Wage increases were passed to consumers at higher prices. An analysis shows that the poorest 20 percent of American households have experienced a higher rate of inflation than the overall population every month for the past two years. As the production cost of social goods continually increases, the poor will be able to afford

and sustain the daily life expenses of their families and so, this law injures the disadvantaged groups on various levels.

2.2. Minimum Will Do Harm to the Firms

On the other side of the market, the firms will also suffer equally from the minimum wage law because this law restricts the company's growth. If firms fail to respond to minimum wages, "increase in firms input costs will lead to declines in their profits [10]." This is because in the long run, firms of competitive market will produce and run at an equilibrium point when producer surplus is substantial and their Total Revenue will equal to Total Cost (Total Variable Cost+Total Fixed Cost), otherwise they will experience the loss of profits. However, their "profits will be threatened by higher wages " [11]. The increase in the wage will contribute to the rise of Total Variable Cost, and thus to the Total Cost. Hence, the producer surplus will be low and the profits will be less.

Moreover, government intervention in the market makes it more difficult for SMEs to operate. In the case of a deteriorating business environment, setting a minimum wage will only reduce the flexibility of enterprises to operate efficiently.

Therefore, enterprises will have to raise the prices of their goods and services, forcing SMEs facing fierce competition to go bankrupt. Another fact is that, if the operating costs of employers increase, the input of enterprises for mechanization or high-tech production will inevitably decrease. As a result, the competitiveness of enterprises declines. This effect is particularly reflected in small and medium-sized enterprises, because the scale of small and medium-sized enterprises is relatively small and the funds are not sufficient. When the wages of grassroots workers increase, their funds will become even more impoverished. As the investment in mechanical modernization becomes less and less, they will gradually fail to keep up with the pace of the times. For example, Luca and Luca find that minimum wage increases in San Francisco predict increases in exit among lower-rated restaurants [12]. In addition to the above effects on companies, the minimum wage also has negative effects on society.

2.3. Minimum Wage Prevents Social Development

The minimum wage prevents social development. On the one hand, the minimum wage increases social costs. This is because when the minimum wage is implemented, the supply of labor will be greater than the demand, and some people will not be able to find a job, which will cause the unemployment rate to rise. At the same time, in order to make up for the loss caused by increasing the wages of employees, companies will increase the price of their products, consequently raising market prices.

Under the combined effect of inflation and careers, the situation of disadvantaged groups will be even worse. This may lead to emotional dissatisfaction among the people at the bottom of the country and increase the country's crime rate. Criminal behavior will increase social cost. In other words, the minimum wage will bring negative externalities.

On the other hand, the minimum wage distorts the market's ability to automatically allocate optimal resources. Classical economics believes that "the role of the market is particularly important." They regard the market mechanism of free competition as an "invisible hand" dominating social and economic activities, and believe "supply creates its own demand" [13]. Therefore, state intervention in economic life will destroy the normal functioning of the market. The minimum wage prevents the labor market from effectively distributing human resources, especially the different technical requirements of various types of work, which fail to be reflected in the wages, resulting in the same wages for work types with different technical requirements. The wage level should be determined by the free market, which has its own way of balancing the supply and demand of labor.

Based on market supply and demand, but based on the reasonable living needs of workers and their families, workers with higher marginal revenue products do less demanding jobs and get only the minimum wage.

3. Conclusion

We can be more certain of the feasibility of abolishing minimum wage laws because of the negative harm they cause to workers, employers and society respectively. We know that promoting social equity has long been the goal of the government, and social equity can promote people's happy life for the people. Therefore, it is all the more important for the government to abolish the minimum wage law and find an effective solution.

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