

Should We Abolish the Minimum Wage

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Abstract: The so-called minimum wage system refers to the system in which the state stipulates that the employer should pay the minimum labor remuneration to the workers through legislation. The minimum wage system is an important measure and means to ensure the realization of workers' right to labor remuneration, and it has played a positive role in safeguarding the legitimate rights and interests of low-income vulnerable groups and safeguarding social substantive fairness and justice. Although the call for abolishing the minimum wage standard is not totally unreasonable, its fundamental mistake lies in ignoring the preconditions for establishing the minimum wage system in China. The minimum wage system has its existence value and rationality, which is the bottom line for the state to safeguard workers' rights and interests, and should never be abolished. If the government doesn't set a minimum wage standard for the weak labor force, workers will lose the minimum bargaining right in the game between relatively scarce capital and nearly unlimited supply of labor force. This article will make an analysis of the dispute over whether the minimum wage should be saved or abolished, and analyze the reasons behind the dispute.

1. Introduction

The national minimum wage(NMW) is widely used around the world. The effects as well as the effectiveness of the national minimum wage, however, is still worth studying. The possibility of other policies to substitute the minimum wage is also being researching. In this essay, comparisons between policies will be made and there will be reasons for not abolishing the minimum wage.

The national minimum wage(NMW) is set by the government or regional authorities to reduce inequalities in income and poverty. Stewart(2002, 2004) shows that the national minimum wage (NMW) in the UK did not harm the employment prospects of the low-paid. Without the NMW, the income would be extremely low for those unskilled and low-skilled labours or for labours with low competitiveness and low bargaining power. For example, the part-time women earned 25% less than their full-time counterparts without the national minimum wage. After the NMW was introduced, the gap between the two groups of female labours was reduced.

However, some scholars argued that the minimum wage is not the best method to achieve those governments' targets or the three basic economic targets(price stabilisation, full employment and economic growth). Those economists believe that other policies, such as child benefits, low income tax rates, cash transfers and the expansion of apprenticeships play the similar roles as the national minimum wage but may have better outcomes than it. Nonetheless, those policies could not completely replace the minimum wage since they all have their own limitations which might be more lethal. For example, the pension leads to high opportunity costs. Also, there are time lags for monetary policies to be effect. It may require 8-12 months for individuals to react to the change. Therefore, the major factors influencing the results of these government policies including the national minimum wage can be classified into 4 aspects, which are inflation rates, interest rates as well as exchange rates, competition in the market as well as employment and the type of economy. In the following paragraphs, the effectiveness of those different policies in reducing poverty and inequality would be discussed in these 4 dimensions and there would be a clear answer to the topic whether we should abolish the minimum wage.

2. Inflation Rate

The first factor that the policy maker should consider about is the inflation rate. The minimum wage will be higher than that in the normal circumstances if the inflation rate is overvalued. For example, Venezuela RP. had a minimum wage of US\$7310 per year in 2015, which was much higher than the other countries' annual minimum wage with the similar poverty ratio (around 30%). The reason for such high minimum wage rate in this country could be explained by being the country with the highest annual inflation rate in the world in the year 2014 (69%). In the following 5 years, Venezuela experienced sustained hyperinflation to the rate of approximate 1 700 000% in 2018. As the price level increased rapidly, the cost of living in Venezuela rose. Therefore, to guarantee citizens' living standard, national minimum wage had increased. What is impacted on the minimum wage likewise should be impacted on the other policies. Since the cost of living rises, government should pay more for cash payment, pension, subsidy for tuition or other government expenditures to reduce the poverty and inequality. Hence, inflation has effects on the minimum wage for the government as severely as the other policies which the most obviously represented by the increase in the government spending.

3. Interest Rates and Exchange Rates

Secondly, the interest rate and the exchange rate affects the minimum wage and other policies in a country by causing the non-uniqueness of variables in the calculation. If the interest rate decreases, this could be achieved by higher money supply, the demand for this currency from countries in the rest of the world will fall. Hence the currency is depreciating and its exchange rate against the United State Dollar (USD) decreases. Take Indonesia as an example. The minimum wage was 988,800 Indonesian Rupiah (IDR) in Jan. 2011, while the figure for Jan 2019 was 1,570,922 IDR, which was almost double the figure for 2011. Simultaneously, the exchange rate of Indonesian Rupiah against the United State Dollar was also doubled, from 8,770 IDR per dollar to 14,148 IDR per dollar. Therefore, the conclusion could be drawn that the minimum wage is closely related to the exchange rate. However, the interest rate and the exchange rate affects not only the minimum wage but also other policies. For example, the government spending included in the supply-side policies, such as the subsidies and cash transfers, would be higher to act the same effects as that in the normal circumstances when the interest rate is higher. The ratio is numerically lower than that for minimum wage, which means the relationship of the interest rate and the other policies (government budget) is not as close as that relationship with the minimum wage. Hence, in the sense of money, the interest rate and the exchange rate affects the minimum wage more. Resultantly, the interest rate as well as the exchange rate affects all policies included in the supply-side policy in in regards to social welfare.

4. Different Economic Types

Thirdly, different type of economy leads to different outcomes of minimum wage policies. In theory, there should be no government to intervene the market. However, in reality, no economy can survive solely with or without government intervention, so there is no 100 percent market economy or 100 percent planned economy. Therefore, we should analyse each country based on their own national conditions. For those countries which are more inclined to the market economy, there would be less direct government intervention in these economies. However, the minimum wage, which is paid by firms, is set by the government but not included in the total government expenditure. Hence, the government intervention has more effects on the policies funded by the government (transfer payment), in contrast to the effects on the minimum wage.

5. Market Competition Level and Employment

Lastly, the effects of minimum wage is affected by the level of competition and the employment in the market. For the perfect competitive markets, firms are not able to decide the prices as they are price takers. Therefore, the wage rate in the whole industry is the same. Since higher minimum

wage leads to higher marginal cost directly, it reduces the demand for labours by firms and causes unemployment. Unemployment is always accompanied by poverty and inequality, which is conflicting against the governments' targets. For the other policies, as there are no advantages of any firms in a perfectly competitive market, other government aids would be unsuitable in this type of competition. Also, perfect competition only exists in theory. In fact, the monopolistic competition and oligopolistic competition would be more valuable to be discussed. Some firms can adjust the prices according to the change in the costs, so there would have different conditions for different firms. Assuming that there is the minimum wage, firms can only choose to reduce the numbers of employees hired to reduce the labour costs or to increase the output which could only happen in those big companies with sufficient financial capitals. Both two actions would not reduce the poverty or inequality, so the minimum wage would not be effective in this circumstance. However, other policies, such as the subsidies and the transfer payments can balance those inequalities by funding firms so that the firms would not consider the high labour costs as a problem anymore and increase the output.

6. Reflections on the Dispute over the Existence or Abolition of the Minimum Wage System

6.1 Minimum Wage System and Economic Development

Instead of setting the national minimum wage in a standard level entirely, the minimum wage set depends on the occupation would perform better in reducing the poverty and inequality. One idea is to classify the industries into the capital intensive industries and the labour intensive industries. Most of the workers in labour-intensive industries are paid in piece wages based on Taylor's wage theory - 'work more, paid more'. Although the piece wage rate could be high since firms are profit-motivated and higher output is expected, the labours would not be paid if there is no output produced. Hence, to reduce the poverty, the minimum wage should be set by the government. In order to motivate workers, this minimum wage should be low so that the workers still need to work hard to gain more piece wages. By contrast, labours in the capital-intensive industries are more skilled, so they are more competitive and have higher bargaining power than those low-skilled labours. Hence, firms would attract candidates via financial aspects so it is not necessary for the government to set the minimum wage.

However, some outputs for certain occupations can not be measured, such as teachers, doctors and police officers. For this problem, the countability of the output in the industry should also be considered. It is better to set a relatively low minimum wage (but still higher than the transfer payment for the absolutely poor) for the worker's who receive the wages based on Taylor's theory or on their performances. Relatively high minimum wage for skilled and full qualified employees, for example the white-collars, will guarantee their living standards and stand the tax duty as a tax payer.

It is generally believed that the purpose of the minimum wage is to guarantee the minimum living needs of workers, prevent unfair competition, protect women and children, safeguard economic development, prevent unfair competition of labor force, narrow the wage gap between unionized workers and non-unionized workers, eliminate poverty, improve production efficiency and reduce dependence on social welfare. In developed countries, the minimum wage tends to protect marginal workers or low-productivity workers, so that workers can enjoy a socially acceptable standard of living. The minimum wage is 40%-50% of the average wage. Even if some workers are willing to accept the minimum wage offered by enterprises, due to the competitive pressure of the labor market, such wage level may only be enough to make ends meet, and it cannot meet the basic living needs of workers and their families at all, not to mention the surplus money to enrich and improve themselves. Such employment below the minimum wage level belongs to insufficient employment with insufficient income in economics, which has no effect on improving the living conditions of workers, improving the quality of labor force and expanding the consumption of workers. Under the economic crisis, instead of restricting or reducing the treatment of workers, they should be provided with a series of political and economic rights to ensure social

stability and long-term development. When the economy is in severe recession and there are a large number of unemployed people, the legislation of minimum wage will help the economy get out of recession, and when the minimum wage is close to the average wage, it can improve purchasing power. The minimum wage system can often prevent the competition between wages and prices, thus stabilizing purchasing power and promoting economic development.

6.2 Minimum Wage System and Social Development

Undeniably, since there was a minimum wage standard, whether it should be set has been debated, and it is believed that the minimum wage affects the flow of labor and capital. Because of the wage gap, workers in low-wage areas will move to high-wage areas, and at the same time, external employers will be reduced from entering the areas, resulting in workers flowing in from other places but employers leaving slowly, and wages will be reduced accordingly. In the end, both employers and employees will lose both sides while seeking the highest efficiency. However, by comparing the advantages and disadvantages of the minimum wage, we can find that if there is no minimum wage standard, low-wage employers will not pay workers according to the price of labor, which will often lead to the poverty of workers. In countries where trade unionism is practiced, it is not easy to set the minimum wage standard. For example, the labor-management relationship between Japan and Venezuela is enterprise unionism, and Japan conducts the spring offensive of collective wage negotiation once a year, and the interaction between labor and management is at the company level. The positive response to the profitability of companies and the lack of labor unions among companies have damaged the establishment of the minimum wage standard. China's minimum wage system should be flexible. When the economic situation is good, the minimum wage will be raised a little, and when the economic situation is bad, the minimum wage will be lowered a little. In the current economic downturn, the minimum wage standard can be appropriately lowered, but the minimum wage system must not be abolished.

Whether a country has a minimum wage system has a great relationship with its labor relations. China's labor relations are dominated by individual labor relations, while collective labour relations is underdeveloped. There are neither opportunities and structures for workers to formulate social and economic development goals at a higher level, as in some European countries, nor developed collective bargaining system, employee participation and joint decision system, as in Germany. When there is a big difference between the government's decision and the Committee's suggestion, it is suggested that the government submit the plan to the Standing Committee of the National People's Congress at the same level for discussion before making a decision, so as to protect the workers' rights and interests in wage distribution. As the minimum wage system is closely related to social development and citizens' life, public participation and hearing should be introduced in addition to expert committees. This decision-making mode can absorb representatives from various parties and bring together different voices, which is more conducive to coordinating and safeguarding the interests of various parties and improving the efficiency of decision-making. For a worker, the most important things in his life may be his salary, working hours and working conditions. His quality of life, his happiness, his property, the education he can provide for his family and his life depend more on working hours, wages and working conditions.

The minimum wage actually reflects the democratic idea of freedom and equality, and it is a reasonable minimum income to ensure that workers can live a healthy, economical and decent life. Although the legislative purpose of the minimum wage is more inclined to protect the economic interests of workers and safeguard their basic livelihood, it must also take into account its corresponding social and economic effects. If we only consider workers without considering the economic effect of the minimum wage standard, we will inevitably ignore the interests of employers, which will lead to the rapid increase of the minimum wage, which will make enterprises overwhelmed, and some enterprises will fail, which will affect economic development and ultimately affect the employment situation of workers. With the development of economy, the minimum wage standard should not only include labor remuneration, but also include social insurance and housing accumulation fund. Although there are objective economic differences

among different regions, the definition of the minimum wage standard should not be inconsistent across the country, and the interests of workers should not be harmed on the grounds of the special circumstances of this province. In this regard, the human resources and social security departments can refine the national laws through administrative regulations, and specify the proportion interval of social insurance premiums and housing accumulation funds in the minimum wage in a more specific way, and then each region can choose the proportion within the interval according to its own situation. This can not only meet the specific needs of various provinces and cities, but also maintain the unity of laws.

7. Conclusions

In conclusion, the minimum wage is crucial not only for individuals but also for the government. If there was no national minimum wage, low-paid workers would lack of incentives to work then become unemployed and receive the government transfer payment. This would result in higher government expenditure in the cash transfer and lower government tax revenue because of less working participation. For those problems mentioned, it would be possible for the government to enact a new scheme for the national minimum wage, which would include but not limited by the functions of the previous one. On the previous one's basis, the new scheme could cover the improvements of those limitations mentioned and discussed in the preceding part of the context.

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