

Discussion on the Withdrawal of Minimum Wage

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Abstract: The minimum wage system is a policy for the government to artificially intervene in the labor market by the legal means to protect the income of low wage workers and safeguard the most basic rights and interests of workers. Its impact on employment has aroused widespread controversy. Although minimum wage laws are now in effect in many jurisdictions, differences of opinion exist about the benefits and drawbacks of a minimum wage. However, the minimum wage have many disadvantages. Abolishing the minimum wage is the best option. This paper demonstrates the significance of abolishing the minimum wages, alerting people to think it over in a critical way.

1. Introduction

A minimum wage is the lowest remuneration. The employer can pay employees. Most countries introduced minimum wage legislation at the end of the twentieth century [1]. Because minimum wage increases the cost of labor, many companies try to avoid minimum wage laws by using gig workers, moving labor to locations with lower or non-existent minimum wages, or by automating job functions [2]. The movement for minimum wages was first motivated as a way to stop the exploitation of workers in sweatshops by employers who were thought to have unfair bargaining power over them. Over time, minimum wages came to be seen as a way to help lower-income families. Modern national laws enforcing compulsory union membership, which prescribed minimum wages for their members were first passed in New Zealand and Australia in the 1890s [3].

2. Why We Should Abolish the Minimum Wage

2.1. Minimum Wage and Unemployment Rates

Firstly, minimum wage leads to unemployment. Here's how it works: If workers are paid more, employers will hire fewer of them [4]. A higher minimum wage- while good for some workers - would harm total employment due to fewer jobs, especially for the low-skilled. Higher wages would also eat into profits, hurting both employers and, in the case of publicly held companies, their shareholders.

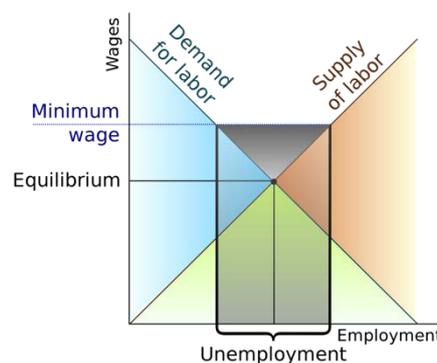


Figure 1 Minimum Wage Equilibrium.

The higher the wage rate, the fewer hours an employer will demand of employees. As the wage rate rises, it becomes more expensive for firms to hire workers and so firms hire fewer workers or hire them for fewer hours. The demand of the labor curve is therefore shown as a line moving down and to the right. Since higher wages increase the quantity supplied, the supply of the labor curve is upward sloping and is shown as a line moving up and to the right [5]. If no minimum wage is in place, wages will adjust until the quantity of labor demanded is equal to quantity supplied, reaching equilibrium, where the supply and demand curves intersect [6].

During the early 1930s, the effects of minimum wage on employment could not be accurately predicted due to the use of outdated research methods. As a result, the impact of minimum wage on joblessness was often underestimated. However, in the coming decades, more up-to-date research models were able to portray the true extent to which minimum wages were heavily contributing to job losses. Recent literature on this topic makes it obvious that setting a base pay for employees has caused more harm than good. Of all the studies taken into account, around 2/3rd estimated that minimum wage had “negative effects on employment.” A meagre eight found a positive impact [7].

2.2. Minimum Wage and Small Businesses

Secondly, minimum wages may cause small and medium-sized businesses to fail. The world is in a state of slow economic growth, and countless national leaders are hoping for a stage of mass innovation and entrepreneurship. But small businesses, even with government support, are not succeeding. Due to the minimum wage, many micro and small businesses failed because they could not afford to pay the minimum wages to their employees, leading to bankruptcy or closure.

Let's understand the debilitating impact of minimum wage on small businesses with the help of Tara Oxley's real-life example. Oxley owns two small-scale enterprises, a restaurant, and a grocery store. She says that after the state increased the minimum wage by \$1.15, her profits took a hit. She now had to pay the stipulated wage to her employees, but at the same time, she was unable to transfer the cost to her customers. Oxley now has to work overtime herself so that she can make payroll [8]. “I find myself extremely lucky because I am fortunate enough to have an extraordinary group of people that work with me,” she says. “I consider them family, so if they need something they do not hesitate to ask. We figure it out together. I would hate to lose any of these members of my family because I could not afford to pay as many employees [9].”

2.3. Minimum Wage and Poverty Alleviation

Finally, a possible increase in poverty is another reason why I strongly oppose a hike in minimum wages. As seen through previous examples, minimum wages can contribute to unemployment. Employers will be reluctant to hire retaining profit margins. This means young, unskilled workers from low-income families may have a tough time searching for jobs. Although there are indeed times when minimum wages would lessen poverty, sometimes they can have an opposite effect. Minimum wages may aggravate poverty if workers in the formal sector lose their jobs. For minimum wages to work, they need to cover a large pool of informal workers who are extremely vulnerable to market fluctuations that can lead to job losses. Minimum wages should cover secondary family workers too for reducing poverty. And most importantly, the government should build a safety net for low-income workers if they happen to lose jobs [10].

3. Minimum Wage Data

Let's talk about accounting. Wage distribution can increase our understanding of how minimum wages affect poverty. But it is still necessary to know the household income of workers at different wage levels because poverty is defined in terms of household income, not individual earnings. For example, a worker in the upper half of the wage distribution might live in a poor household, so a higher minimum wage could help that worker's household escape from poverty. Or a worker at the bottom of the wage distribution could be a secondary wage earner in a non-poor household, so a higher minimum wage would make this household better off. The impact of higher minimum wages on poverty also depends on whether the concern is solely with the number of households with

incomes below poverty line (the incidence of poverty) or also with how far the poor are below poverty line (the poverty gap) [11]. In the second case, it will matter which poor households benefit and which poor households lose when minimum wages rise. Raising the minimum wage could raise the incomes of some poor households with incomes near poverty line while reducing the incomes of the poorest households at the bottom of the distribution. It is shown by the figures below.



Figure 2 Income Gini Ratio [12].

In the U.S., The federal minimum wage has been a helpful tool to alleviate poverty. The current federal minimum wage is \$7.25 per hour as the figure below shows, which means a full-time worker earns \$15,800 annually. For that particular individual, his yearly salary is sufficient to look after him. However, if he has more dependents, then the income will fall short and the family will be classified as poor [13].

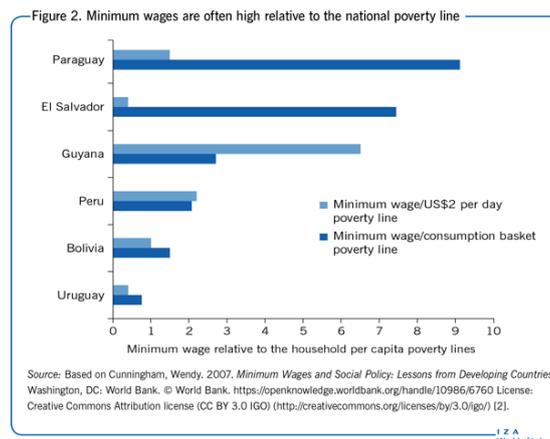


Figure 3 Minimum Wages and Poverty Line.

The Gini coefficient (also known as the Gini ratio or index) is a common measure of income inequality within a nation. It gauges income disparity on a scale from 0 to 1, with higher numbers indicating higher levels of inequality. The lowest value for the United States was 0.386 in 1968 and the highest value in 2011 and 2012 at 0.477 [14].

All in all, the minimum wage concept is not the most effective method to tackle poverty. If the government's main priority is to ease relative poverty, it should rather focus on lowering direct taxes.

4. Conclusion

In conclusion, the minimum wage will result in many people losing their jobs or even struggling to find one. People who have already worked for the company may be fired because of downsizing. The minimum wage will cause problems for small and medium-sized enterprises. The minimum wage cannot solve the problem of poverty. Its mechanism is not mature enough. In other words, the minimum wage cannot cover all aspects. So I've proposed lowering taxes to alleviate poverty. That may not completely solve the problem of poverty, but it's better than increasing the minimum wage.

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