

Arguments for and against national minimum wage



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Supply of labour is elastic and can be moved across the region at the same wage. When minimum wage goes down firms can recruit more labour but as seen in below chart when its go up, it move from E1 to E2. That means at the set new minimum wage firms can only afford E2 number of labours.

In UK, demand of skilled labour and supply of skilled labour does not reach equilibrium. Skilled labour from European Countries has been migrated in the UK to fill the gap in between. Over the past couple of decade's migrated skilled labour's supply increased which result in unemployment.

Source: LPC estimates based on ASHE with supplementary information, low-pay weights, UK, April 2006

To get the skilled workforce in action, government has to decide a minimum wage at which they are happy to migrate and work in the UK. As UK is short of skilled labour, government decided fair minimum wage rate which keeps changes every year and increased by some percentages, to get the skilled labour motivated and provide them with the good intensives.

Source: <http://www.guidance-research.org/future-trends/logistics/info/printAll?lang=en>, 25th September 2010

If demand of labour is relatively inelastic as per the above diagram then reduction in employment is less than if demand for labour in terms of employers is elasticity in accordance with the changes in wage level.

NATIONAL MINIMUM WAGE

In UK national minimum wage set £ 3. 60 in 1999. This law has been aim to remove poverty in long term as a result of that we can see from a graph below, constant growth in the National Minimum Wage.

Source: [http://www. poverty. org. uk/01/index. shtml](http://www.poverty.org.uk/01/index.shtml), 22nd September 2010

ARGUMENTS FOR THE NATIONAL MINIMUM WAGE

“ Arguments in favour of National Minimum Wage suggest that it may have a more ambiguous effect on employment.” - Dolado et al (1996)

Social Arguments:

“ Government Evidence suggests that the minimum wage has had a small positive impact on public sector finances.”

Which means more jobs, result in increase employment in various parts like full time, part time and self employed. As it has positive impact on public sector more jobs in full time and part time can be seen in the below table.

Source: [http://www. guidance-research. org/future-trends/education/printAll? lang= en](http://www.guidance-research.org/future-trends/education/printAll?lang=en), 25th September 2010

If the firm is paying National Minimum Wage then it has an incentive to raise productivity of employees. This result in investment rise in personnel.

Social injustice and unequal pay distribution among the society is the key reason of the poverty, in order to equally divide income across the society.

As income increases, the government gets more income tax and national insurance so that it can spend it for its expenditures.

The better trained are the workforce, the higher the reward for everyone.

Economic Arguments:

To 1.5 million jobs benefited in October 2001 through increase in NMW which as a result increase the aggregate wage bill by upto 0.11%. The following year nearly 1 million people in fewer jobs are benefited. Actually the solid increase in 2001 is supported by small increase in previous year – 2000 and another small increase in following year – 2002.

Over 90,000 jobs secured by 18-21 year olds in October 2001 and labour market is slightly relieve in following couple of years. Below chart shows % of jobs paying at or below national minimum wage and size of the firm.

Source: LPC estimates based on ASHE with supplementary information, low-pay weights, UK, April 2006

ARGUMENTS AGAINST THE NATIONAL MINIMUM WAGE

“ Arguments against the National Minimum Wage rely on a neoclassical framework.” – Card & Krueger (1995)

Social Arguments:

For certain industries, increase in National Minimum Wage – NMW means increase in marginal cost so they try to redundant employees and cut the hours of existing employees which results in increase number of

unemployed. The higher the national minimum wage is marginal cost for hiring new employee considerably more.

Another issue is Pay-leap frogging, mean expert workers in the field command higher wages in order to maintain the difference between their wages and national minimum wage.

Cost of living varies from region to region, for example renting 3 bedroom house in London won't cost you same as renting it in outside London. And NMW is set the same across the UK. So cost of living in London is higher and still they are getting paid similar NMW as other parts of the country.

In the time of recession company go for recruiting experienced workers rather than recruiting fresher, because fresher requires training and firms try to cut such costs by recruiting experienced workers.

Majority firms subject to particular region and if the employees are not happy with their wages then they just move on.

According to the economist, " High benefits and low pay leads to a culture where people manipulate the system and stay on benefits."

As minimum wage increase by £0. 13, many forms choose to have office in the UK and set up manufacturing plant in some other country like Bangladesh or import directly from china.

The minimum wage is still less than one can get through the benefits.

Everything ends with the consumer and he doesn't have anything to spend then everyone is going in loss.

Millions of potential jobs don't exist because of government rules which also includes minimum wage. Get rid of majority of them and as a result, firms start hiring people like anything and the problem of unemployment would go away.

Minimum wage is equal for everyone, which means unskilled labour worth of £2.00 an hour must be paid £5.93, same as the skilled labour who are worth it.

There was a famous example a few months ago in the US. A teacher was complaining about being paid too little – but emphasized that she was a teacher “for the children” and not for the wage. Well, you can't have it both ways. Either you do it for the love of it, or you do it for the wage. When you know the wage is low, you can always choose a different career.

Economic Arguments:

In 2004, 520 companies were surveyed which shows result that the NMW increase has considerable effect in terms of costs and the most harm done in large firms such as 5 hours cut a week, it means 40 hours full time employee has to work 35 hours a week.

As per new minimum wage, working 37.5 hours a week gets you £11563.50/ year which is after Tax and NI receivable around £9903.02, which is not good enough to live a standard life.

CONCLUSION

After discussing arguments in favour and against the national minimum wage, from the social point of view increase in NMW is necessary; for living

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fairly standard life. The life style here in London and in Bangladesh cannot be compared because the market is totally different here. That's from the society's point of view but from the business point of view; it is investment in people at the end of the day which motivates labour and increasing the productivity which helps firms to earn more profit.

With this conclusion I am in favour of increase in the national minimum wage.

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PART B

TREND EXTRAPOLATION

Extrapolation can be defined as to conclude the future from the past history, assuming that the technological change is in steady stream and will continue now.

Statistical Curve Fitting

As name suggests, this method using statistics data for forecasting, such as Indianapolis 500 mile race data as per shown in the below graph:

The beginning of the World War 1 Indy race cars have exponentially increased to get pole positions. In the graph above, two technological innovations and ideas are shown quite clearly in the data. One of them cars out of the two was a rear-engine car. The first car of this sort appeared firstly in 1961. The qualifying speeds for Indy race cars were about 150mph which a hard target to achieve. In 1964 a rear-engine car won a pole position for the first time attaining close to 159mph.

Limit Analysis

All growth has some kind of limitation whether it is recognised or unrecognised. Sooner or later, projections must replicate the improvements that may even get close to the limit but mustn't exceed the limit. The trend of lower temperature is inadequate, of course by an absolute zero.

For example, a movement of growing energy conversion efficiency can't exceed to 100%. The trend is presented in the below chart:

The trend line looks and analysis aspects of the larger field of development. The trend line attempts to extend the boundaries of the data points beyond their regions in the timeframe.

For Example is recently US and China relation, which looks in curve graph like below:

Source: <http://www.sublimeoblivion.com/2010/08/18/underestimating-china/>, 25th September 2010

Some common types of trend:

Constant trends are those where there is no net increase or decrease.

Polynomial trends are those best modeled by a polynomial equation. They may be second-order (quadratic) equations of the form $y = ax^2 + bx + c$, resulting in a parabolic shape:

Consensus Methods

The method is a set of values for significant family's abilities to pay for colleges. From last couple of years, trend line shows decrease in variance in need analysis. The participating corporation believe that the agreed opinion approach, when applied in a consistent manner, serves to decrease or reduce the indifferent results that threaten the long-lasting tradition of awarding help on the basis of need.

The desire and the need to serve for the 'greater good', rather than serve individual academic or institutional needs and capabilities have required some areas to be compromised, but 568 Group strongly believes, " the

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consequential methodology remains true to both the institutional and professional principles and aspects that underlies its co-operative efforts”.

For example, student wish to study in university, university go through the savings through the applicant’s family. Let’s say the university fee per year is £30, 000 and family’s income per year is £ 50, 000. In which parents have to sign the statement that they are going to fund for their child’s accommodation, fees, travel and other required expenses.

Family need to demonstrate their household expenditure to show that they can spare £ 30, 000 each year plus other expenses comes through the education loan or scholarship from university. In total of all have to be reached £30, 000 a year plus other expenses like travel. Through simple diagram below I can understand consensus method better way.