Minimum wages

Business, Work

Many economic theories have been proposed to discuss the impact of minimum wages on labor market. The proceedings of the labor market is based on the exchange of resources between the employee and employer, the employee receive wages in return for their labor services to the employer. Labor market is considered to be most competitive market, where the established market price is much closer to the value of the product.

Therefore, the employee is likely to receive marginal value, in the competitive market (excluding the factor ofminimum wage). Therefore minimum wage laws have been introduced which foresee crisis of unemployment, if fewer employers are interested to hire labor, where as more people are willing to offer their services. Therefore, the law intends to maintain the equilibrium, to avoid social and economic turmoil.

The amount of labor supplied by the workers is directly proportional to the nominal wage, a certain increase in the wage, forecast increase in the labor supply. Theobservationis based on the assumption that an employee hired at a low wage will prefer to consume 'leisure and forego wages', a slight increase in the nominal range, it becomes difficult to practice leisure and avoid labor, therefore there is an increase in the number of workers wiling to offer labor. The relationship between the labor supplied and nominal wage is function of different variables including price. A substantial increase in the price level will reduce the number of workers, at all wages (Wascher, 1995).

Labor Market ang Wages

There exists an inverse relationship between the nominal wage, and the 'amount of labor demanded by the organizations'. A substantial increase in the wages is likely to compel the organizations to reduce recruitment schemes. The relationship has been derived on the basis of an assumption that the organization prefers saving for increased proportion of profitability i. e. such level of production is aimed by the organization which increases the profit i. e. the difference between expenses and revenue.

The revenue is based on the price of an item, and quantity of the items sold (Christopher, 2005). The expanses include the amount of wages, which is based on the labor and services. Therefore, the company will prefer to maintain a minimum threshold level to secure profit, on the basis of reduction in the wages, as more workers are employed, the labor wage increases which turn the organization less profitable. The price factor may compel the organizations to recruit the employees for all wage levels.

Minimum Wages and Labor Market: Implications

It has been predicted that minimum wage laws are expected to increase unemployment, if minimum wage is established above equilibrium wage. It is because, a large number of employees will be interested in offering their services in exchange for higher wages, on contrary on small and limited number of such opportunities will be available. Also, the organizations will be careful about the recruitment scheme, and ensure that only well qualified people are hired on high wages, therefore there is expected to be little scope for the least skilled and inexperienced employees, thus within the labor market the unemployment level will increase (Kane, 2007).

Another factor which has the potential to deteriorate the condition and extend the unemployment crisis is monopsony within the labor market. If the employer has the authority to determine the wages for the employees, it is expected that the unemployment rate will diminish because minimum wage may boost employment. The equilibrium between the labor demand and labor supply will exist only at a point when applied wage is equal to the requirements of the labor and organizations.

Wages are more than the equilibrium wage, will result in unemployment i. e. the excess supply of labor. ‘ Using the matching function formulation along with Nash bargaining between workers and firms, the results of Hosios inform us that an efficient labor market equilibrium requires that the elasticity of the matching function withrespectto the size of the set of searchers be equal to the share of the surplus they receive’ (Kane, 2007).

Concerns: Minimum Wage

It is important to understand that minimum wage is a practice control factor applicable on the labor, which can be regarded as the captivity of the economic rights of the low-paid labors, and their prospects. The increased minimum wage limit is expected to reduce America's labor freedom index to 87 percent. In the case of free market economy, the maximum utilization of the land, information, capital goods, and labors achieved through price allocation.

If the prices are kept free floating, the market is considered to be real free in launch of its economic policies and business plans, which have an impact on the labor market, and the fixture of minimum wage. ‘ Estimates of the bargaining power parameter, although significantly lesser than a percent, are significantly larger than estimates of the match function elasticity and as a result yield an optimal minimum wage rate less than the then current value of $4. 25’ (Swinnerton, 1996).

Considering the example of an organization, the organization has the right to increase its wages to capture the attention of the labor for the employment. Wages are considered to be suitable indication to discuss the expansion of business activities, and direct employment. 'Freely floating prices allocate resources efficiently to places where they will take root and boost economic productivity' (Christopher, 2005).

Price signals have been disturbed and distorted through implementations of labor regulations, which hamper market mechanism, and restrict economic freedom of employers and employees. Minimum wage is considered to have significant impact on economic freedom, the labor supply and demand mechanism undergo disruption due to the allocation of government specified minimum wages (Card, 1995). If the situation is not existent, the minimum wage can be regarded as 'crude instrument' which relocate the labor market towards efficient allocation.

'The labor market is not excused from the basic economic principle that artificially high prices cause lower demand'. The National Bureau of Economic Research observed that many analysts were of the opinion that minimum wages have negative impact on the labor market, 'almost all point to negative employment effects’. More specifically, the study also revealed that there is, ‘ relatively overwhelming evidence of stronger unemployment’ impacts on less experienced workers (Swinnerton, 1996).

In the case on United States, the proposed federal minimum wage has been avoided by the Congress for more than a decade. The reviewed limit for the minimum wage is expected to raise to $7. 25, however analyst are of the opinion that labor market can be served well through expansion of the Earned Income Tax Credit (or EITC, a substantial wage subsidy for low-income workers). According to 2007 Index, more than 90% of the US labor market is considered independent, and the imposition of the minimum wage will not only hamper the status of the labor market, but will reduce the labor freedom factor.

Implications

The proper approach for ensuring better income for group of workers can be achieved through imposition of minimum wage. The entrance to Labor Market can be achieved through implementation of minimum wage, and this is likely to benefit least qualified individuals. 'Labor market flexibility refers to the ease with which workers and employers can negotiate mutually advantageous labor contracts' (Nathalie, 2006). However the implementation of minimum wage has been discouraged by economist, most of the economists are of the opinion that higher minimum wage has failed to achieved the primarily goal ofpovertyreduction, and is responsible for unemployment.

According to a survey by Canadian authorities, 10% increase in the minimum wage was responsible for the direct unemployment of Canadian teenagers by 2. 5%. In this context the labor laws play fundamental role, to counter such flaws. Researchers have concluded that, the scheme of tightening of laws about labor relations is responsible for the unemployment. It has been warned that implementation of rigid laws for the minimum wage barrier will affect the performance of the organizations. It is believed that organizations will opt for recruitment of smaller staff, and sought the replacement of workers with machines, and diminishes the performance premiums and other perks, or move switch over their operations ands move to other part.

Effects and Alternative (Tax Credit)

The increase in the level of minimum wage is considered to be blockade for the reformed economic policies of any country; furthermore it disrupts international competitiveness, labor freedom. Labor freedom, like property rights and business freedom, a detailed study report issued by The Heritage Foundation and The Wall Street Journal have concluded that, all these factors are considered to be important parameters for the evaluation of country's overall economic freedom as measured by the Index of Economic Freedom (Kane, 2007).

The labor market should be based on labor freedom to strengthen the scope of economic activities that correlates the ability of workers and businesses to interact without any surveillance or official restrictions by the government. The minimum wage is although considered to be an important measure for supporting the poor and less skilled worker, but such conditions affect the business activity and shatter the economic plans of the organizations, and consequently the labor market is affected (Wascher, 1995).

'The minimum wage disrupts the natural interaction of supply and demand and leads to inefficient allocations of labor and, eventually, increased unemployment', on contrary the government discourage the practice of competitiveness, and transform it into level economic battlefield, with restricted scope of advents (Swinnerton, 1996).

The sole objective of minimum wage is to provide higher income to low earners, but to avoid the negative fallout of labor market, the execution of such policy should be avoided, and therefore policies based on negative income tax or earned income tax credit should be introduced to favor the low wage earners. Such methodology is considered to be economic efficient.

The classical analysis of minimum wage support the idea that higher wage earners should help the low earners, the restriction of higher minimum wage is likely to affect the services and jobs of the low wage earners, therefore the labor market can be strengthen by providing sufficient incentives to ' low wage workers at the expense of other low wage workers and businesses employing low wage workers' (Card, 1995).

The alternative scheme of negative income tax or earned income tax credit support the low earners, and it is the over all society that incurs the cost, and this further stabilizes the labor market. The scheme is considered to be economically viable, 'because, a low tax rate on the broader economy causes less deadweight loss than a high tax rate on a small section of the economy' (Wascher, 1995).

It has been reported that the approved EITC has increased the level of earnings by 40 percent; the proposed $7. 25 of minimum wage after taxes for a full-time worker is expected to double the EITC. It is expected that minimum wage and tax credit scheme will rekindle the hope of low earners, and re-link them directly to the benefits of growing economy.

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