

Free essay on minimum wage a boon or a bane

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Abstract

Minimum wage law, today, has become a moot discussion point and there are difference of opinions among people about the advantages and shortcomings of minimum wage law. The purpose of this paper is to contribute to these discussions on the impact of minimum wage laws on its intended beneficiaries. The analysis suggests that the adverse effects of minimum wages like reduced employment, rising prices and unequal distribution of benefits for exist, but with small magnitudes. The minimum wage is still an important tool in improving the quality of life of the poor.

Keywords: Minimum Wage, price effect, unemployment effect

Minimum Wage: A Boon or a Bane

Minimum Wage is the wage below which an employer cannot legally pay its employees, for a specific nature of employment. The wage rate may vary across countries, but the objective behind having a minimum wage rate is to ensure better wages for workers. This is favourable for workers because they may not be in position to negotiate well with the employer at the individual level. The minimum wage laws are in effect in most of the countries today. However, there are difference of opinions among people about the advantages and shortcomings of this law. The purpose of this paper is to contribute to discussions on the impact of minimum wage laws on its intended beneficiaries. A lot of studies have been done to understand the impact of minimum wage laws. In spite of the various debates that minimum

wage laws reduce employment rate, increase inflation and lead to unequal distribution of benefits to different groups of the labour force, its direct benefit of higher income to workers cannot be negated.

On effect of minimum wage on unemployment, a study conducted by Hicks (2008) concluded that “ a 10 percent increase in the minimum wage would result in roughly 0. 19 percent increase in unemployment” (p. 1). This clearly indicates that increase in minimum wage has a very small effect on the unemployment rate. On effect of minimum wages on prices, Lemos (2004) concludes that “ most studies found that a 10% US minimum wage increase raises food prices by no more than 4 % and overall prices by no more than 0. 4%” (p. 13). This would mean that minimum wage does not raise prices too much. There have been debates that minimum wage leads to unequal accrual of benefits the target population and teenager workers get adversely affected. However, according to Zavodny (2000), “ minimum wages do not significantly reduce teen hours but may have a small effect on employment” (p. 748).

In light of the above, I would like to conclude that minimum wage is an important tool to increase pay for workers and improve their standard of living. The debated adverse effects of this law do exist, but the magnitude of their effect is small. Also, these adverse effects of reduced unemployment, rising prices and unequal benefit distribution can be targeted through other government interventions and can be contained in the long run.

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