Minimum wages legislation has a negative impact on business

\n[toc title="Table of Contents"]\n

\n \t

\n[/toc]\n \n

Everybody wants that they should be compensated for the work they do. Monthly needs have to be met, families have to be fed and all the bills have to be paid. Minimum wage supplies the citizens or workers with the guaranteed amount of wages for the work done. Minimum wage can be defined as " a wage fixed by legal authority or by contract as the least amount that should be paid to the employed persons."(Merriam-Webster). The minimum wages concept was first evolved by International Labour Organisation (ILO) in 1928. This concept was with reference to the workers working in industries which provide low wages and where labour was more vulnerable to exploitation. The importance of minimum wage is First, it may have the potential to reduce poverty Secondly, can foster growth. The intention of minimum wage act was to establish a minimum income level which business could pay to the employees based on the standards of living. Surely legislative protection to receive minimum wage by a worker, can be considered as a hall mark for any developing nation.

However, there are few sincere concerns about increase in minimum wage that can directly affect the economy and small businesses. The foremost reason is it increases the cost of business. The companies pass on the cost of business to the consumers. An increase in the cost of production will lead to an increase in the cost, thus the overall cost of the product increases. Possibly this affects their ability to remain in the business. Minimum wage increase drives number of business firms out of business entirely. There are broadly three major negative impacts of minimum wages on businesses. Firstly, businesses employ resources at its maximum efficiency, increase in labour cost will be absorbed somewhere. One alternative is price increase; but industries having an inelastic demand for their product will be in trouble because consumers will spend elsewhere. Fall in the revenues will push some firms under bankruptcy. Secondly, companies can also reduce the number of workers. Then fewer customers can be served. Again the inefficient firms can lead to losses. Finally, it may substitute technology for workers. Businesses shift from labour intensive to capital intensive. Capital intensive techniques use more of machines than labour. Capital intensive techniques are used more by developed nations because in developed nations wages are high. Labour intensive techniques use more of labour than machines. Labour intensive techniques are more common in developing nations because of cheap labour. But capital intensive requires large amount of capital investment which some firms cannot afford.

Now, with the overall increase in the cost of product the producer will remain with lesser amount of profits because people will buy few products due to high price. When the producer absorbs higher cost, which leads to less amount of profit hence, producer is left with less money to reinvest in the business and grow to increase its productivity level. Small businesses are directly affected by the minimum wage because most of their profits or earnings directly go to pay off their operating expenses. Of all the operating costs, employment wages and benefits expense comprise the largest proportion and is the only cost which is controllable. Considering wages as the controllable cost, most of the producers try and give low wages to the employees. Increase in the minimum wage adds financial challenges for already stressed businesses. This might introduce range of effects on job loss, training, investment in new technology, prompting systematic base for employee monitoring etc. Most of the small businesses will cut hours and the rate of unemployment will rise when jobs are already hard to find. Increase in the minimum wages cause firms to reduce their service quality. If the minimum wage law is enacted, then the companies will hire few employees to comply with the law, which will have direct impact on unemployment rates. Also, increase in the minimum wages drives the high school students to work prematurely. This can lead to less high school graduates and reduction in college enrolment, as well as lower index of professional and skilled workers. Rise in the minimum wage does not help the people living below poverty line. As the cost of paying employees rise, producers prefer to employ more of the skilled workers rather than unskilled once. Some economists also argue upon the point that workers are benefited by the minimum wage laws at the expense of other workers. Increase in the minimum wage brings the employees to higher marginal tax bracket. The positive effect of minimum wage is erased through high taxes. The bottom line is that people living on minimum wages will not be able to support their family any better because cost of everything will increase along with the increase in minimum wages.

Increase in minimum wages has varied impact on businesses. Businesses feel a crunch associated with the minimum wages. The larger industries are less affected by the law as they already pay high wages. The industries which employ lot of low skilled, low paid staff on casual basis like agriculture, retail and hospitality are worst hit by the minimum wage. Manufacturing and service sectors are mainly driven by small firms and have concentration of low wages. Minimum wages has greatest impact on Hotel and catering industry. Hotel and catering industry highly depends on low skilled workers and part time women job. These industries have high labour turnover. But more than minimum wages supply and demand are also major factors that need to be considered in this industry. Small business owners should be aware that labour costs accounts for 80% or more of the overhead establishments and plan accordingly. Increase in labour cost may force the businesses to redevelop their strategies and day to day operations. They need to implement measures to maximise its efficiency and look for solutions to reduce the cost. If home prices rise, like wages the export market is severely affected. Since substitutes are available from competing countries and demand for exports is highly elastic. Because demand is elastic with the increase in price leads to fall in the demand for the good. Lower minimum wage levels are one of the major decision factors for foreign invested companies to locate their new operation. Over the years, China is maintaining its competitive advantage based on the cheap labour.

If the business is sticking to the minimum wage act then the cost of production will rise. If the competitors across the globe are paying less than minimum wages they will be selling at a cheaper price thus, will be able to capture greater share in the market. Business owner′s wants low minimum wages because high wages lowers profit. Business owners believe that high profits encourage owners to expand their business. High wages can force businesses to shift from labour to capital intensive. This is not possible for all businesses due to huge investments. High wages leads to closure of small business. For these reasons some people believe that the law of minimum wage legislation is bad for the economy and it also slows down the growth of the economy. Increase in labour cost effects businesses of all sizes, across all industries.

Raising the minimum wage will not help people who are living below the poverty level. As the cost of paying employees increases, so will the cost passed on to the consumer. The bottom line is that a person living on a minimum wage salary will not be able to support a family any better than with a lower wage because the cost of everything will rise along with the minimum wage

Read more: Disadvantages of Increasing Minimum Wage | eHow. com http://www. ehow. com/list_6386749_disadvantages-increasing-minimum-wage. html#ixzz1BeVeEVPc

The concept of Minimum Wages was first

evolved by ILO in 1928 with reference to remuneration of workers in those industries

where the, level of wages was substantially

low and the labour was vulnerable to

exploitation, being not well organised and

having less effective bargaining power.(pdf)

Legislative protection for workers to receive a minimum wage, can be considered as the hall mark of any progressive nation. It is one of the fundamental premises of decent work. In India, the Minimum Wages Act, 1948 provides for fixation and enforcement of minimum wages in respect of scheduled employments.

“ It increases the cost of business. To adjust, firms cut back workers’ time, reduce benefits and in some cases lay people off. It prices low-skilled people out of the workforce and it interferes with a free contract between employers and employees.”(minimum wage)

Economic effect of minimum wage

Small Business Employment

The minimum wage directly affects small businesses because a large amount of their earnings go directly to pay for operating expenses, such as equipment, supplies, lease or mortgage, credit lines, inventory, and employee wages and benefits. The single largest cost to small businesses are the latter; employee wages and benefits and are also one of the few costs that can be controlled. However, if a higher minimum wage is enacted, they must hire fewer employees or downsize to comply with the minimum wage law, which has a direct impact on unemployment rates.

Poverty

Research conducted by the Heritage Foundation in 2003 found that raising the minimum wage would not curtail poverty levels because of the percentage of people employed full-time earning minimum wage, and “ review of the Census data indicates that fewer than one-quarter of those affected by the proposed new minimum wage work full time.” This means 75 percent of minimum wage earners are part-time employees and do not rely on their income to sustain current or higher living standards, which translates to a slight increase in consumer spending but does not positively impact poverty levels.

Labor Markets

Labor is a commodity and therefore is subjected to market forces. If the minimum wage is increased by the government, more skilled and educated workers will also seek pay increases as persons that are unskilled and not as educated are awarded a higher wage not because of market forces, but government policy. This increases volatility in the labor markets as experienced and skilled workers are forced to reassess their value upward, which may not be accepted by employers.

The Effects of Minimum Wage on Businesses by Owen E. Richason IV, Demand Media http://smallbusiness. chron. com/effects-minimum-wage-businesses-4858. html

Supply-side economists regard the minimum wage as an unnecessary government regulation of small business, as worker's skill levels and market forces determine wages, while demand-side economists regard minimum wage as a means to lift unskilled workers out of poverty.

Employment

Small businesses account for over 70 percent of all operating businesses in the United States. The economy is therefore largely driven by small business. Of all business operating costs, wages and benefits comprise the largest portion and are one of the only controllable costs. When the government mandates that small businesses must pay employees more, all wages must relatively rise, as skilled and experienced workers become more valuable. Consequently, small businesses must either downsize their workforces, initiate hiring freezes, or reduce employee hours and/or benefits. By extension, a raise in the minimum wage also forces small businesses to move operating dollars away from expansion and inventory.

Poverty Level

Demand-side economists theorize that raising the minimum wage will lift unskilled and inexperienced workers out of poverty. However, a 2003 study by the Heritage Foundation found only 15 percent of minimum wage earners would enjoy a direct positive impact by a raise in the minimum wage. In Texas in 2010, a full-time, minimum wage worker would earn $510 over the national poverty level. Supply-side economists point out that small businesses who are unable to absorb higher wages will simply choose between workforce reduction or passing the higher cost on to consumers. Most choose the latter, which inflates the price of goods and services provided by small businesses.

Labor Market

Labor, like agricultural products, is a commodity. The price of labor is directly impacted by market forces. In economic booms, the price of labor goes up as skilled and experienced workers command higher wages. In economic downturns, the price of labor drops as unemployment rises. The result is that skilled and experienced workers displace unskilled and inexperienced workers in lower-paying positions. To small businesses, this is discounted labor, as they pay less in wages for more experienced and skilled employees.

I find that minimum wage increases have no effect on the mining and finance,

4

insurance, and real estate (FIRE) one-digit industries, while finding evidence that a state minimum wage increase leads to roughly a 5% and 8% decrease in new business activity in the manufacturing and retail one-digit industries, respectively.

An increase in the cost of production produces an increase in the cost, the overall cost of the product. Now with an overall increase in the cost of the product, you can have two very different, you can have two similar but different scenarios. Number one you get less profit because people buy less of the profit.. people buy less of the commodity because it's more expensive or two you get less profit because the producer ends up absorbing the higher costs. Now when the producer absorbs that higher cost, there's less money to reinvest in his business to help it grow to increase productivity. And for this reason there are some people that believe that a minimum wage or an increase in minimum wage is bad for the economy, the growth of the economy and slows it down. But there are certain situations where instituting a minimum wage is actually beneficial. So in a situation where labor costs are being sold below market price, what they call a monopolistic labor market. A minimum wage used effectively can actually help increase productivity. And actually help the economy to grow. But all this points to one thing. It's that labor markets so minimum wage and the way that the market responds to minimum wage is not a simple supply and demand model. There are always sectors of production that aren't touched by minimum wage legislation. Self employed workers, in some service industries like farming, and some other protected industries the minimum wage legislation doesn't extend. Which means that you are not dealing with one big large labor market, you are dealing with two labor markets that respond very differently, one that has a minimum wage legislation and one that doesn't. Thus minimum wage legislation in one sector will also affect production and consumption of products in the other sector. So once again minimum wage labor markets aren't a simple supply and demand equation like outlined here. However, getting the basics down will help you understand the more complex dynamics of politics, minimum wage legislation and the economy."

Read more: How Does Minimum Wage Affect the Economy?: Politics & Government | eHow. com http://www. ehow. com/video_4974004_minimum-wage-affect-economy. html#ixzz1BbIbCQkY

http://www. ehow. com/video_4974004_minimum-wage-affect-economy. html

The intention of the federal minimum wage program was to institute a minimum income level that businesses could pay employees to do work, based on minimal standards of living and decency with regard to employee treatment. While often debated, minimum wages do have some effects on businesses

Read more: The Effects of Minimum Wage on Businesses | eHow. com http://www. ehow. com/list_7305790_effects-minimum-wage-businesses. html#ixzz1Be9Uw1OL

A common refrain from politicians who oppose increases in the minimum wage is that an increase will hurt small businesses, possibly affecting their ability to remain in business [Wiseman 1998].