Good effects of minimum wages on labourers and country essay example

Business, Company

Introduction

Minimum wages have previously drawn condemnation from some economists who view it as an arbitrary price-fixing strategy by the government that serves to distort the market and entrench inefficiencies. Political and economic debate remains as to whether minimum wages should exist at all, and if so, whether the wages should be increased. In order to bypass Congress' intransigence over the issue, President Obama signed an executive order in February 2014, imposing minimum wages of $10. 10 on all federal contractors. Since then, private employers including fast food restaurants have strenuously resisted pressure to follow suit arguing that increasing the minimum wage threatens their profitable existence. This paper explores the effects of minimum wages on the individual employees, the firms and the overall economy, arguing that the effects are dependent on the applicable market structure.

Increasing minimum wages has a twin effect on low-wage labourers. This policy would certainly put more money in these workers' and their families' pockets, which may see some families' incomes rise above the federal poverty threshold. Secondly, it is possible that some of the low-paying employment would be eliminated resulting in increased unemployment and thus lower incomes for those affected. It is estimated that in excess of 27. 8 million workers currently earning less than the $10. 1/per hour, who stand to earn more if minimum wages are raised above the current levels. According to the Congressional Budget Office (2013), under the current laws, an increase of minimum wages to $10. 1 would result in up to 16. 5 million people drawing higher earnings by the second half of the year 2016.

However, this increment is also likely to lead to a reduction of low-wage employment opportunities by up to 500, 000 jobs. This result is founded in solid economic theory, especially where perfectly competitive market conditions prevail. Consider figure 1.

Figure 1: Minimum Wages Reduce Employment Opportunities

The equilibrium wage set by competitive market forces is WC, at which firms can employ EC labourers. However, when the government imposes an arbitrary minimum wage policy above the competitively set rate at WM, firms find it costly to employ EC labourers and instead, only demand EM employees, resulting in EC-EM employees being unemployed. There are other effects on the individual employees. These include protection from exploitation by powerful corporations such as McDonald’s and Chic-Fil-A. Minimum wage increments also seek to adjust for inflation, which protects the real value of the incomes by the labourers.

Perhaps the most significant effect on the economy is the reduction of the income and wealth gap between the poorest and the richest in the country. The policy tackles the inherent power imbalances between large corporations and labourers. In addition, the increased labour costs imposed on the employers force them to cut back on their demand as shown in figure 1. Instead, they invest more in capital and thus bolster efficiency. However, it is also possible that the taxpayer will lose more money in unemployment support. Given the fact that it is illegal to pay less than the set minimum wages, labourers that are unable to produce more value than their marginal cost will be rendered unemployed and onto the unemployment benefits line. Higher wages for low-skilled and inexperienced employees will encourage them to stay in their present jobs for longer, as against seeking economically viable skills, which has negative implications for the economy in the future.

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