Performance-Based Pay: Should the Minimum Wage be abolished?

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Over time, economists have been researching on the necessity and effects of the minimum wage on peoples' lives. Itis the amount of compensation imposed by the federal government since 1938 below which laborers should not sell their services and this amount has increased with time. Its primary aim is to tackle poverty and improve standards of living by ensuring every worker enjoys a minimum level of income (Mark, 2012). However, some policymakers state that this policy is inefficient since it negatively affects more people than it benefits (Robert, 1974). This paper focuses on the positive and negative effects of the minimum wage and whether the government should abolish it.

Although the minimum wage is a way of eradicating poverty, it has adverse effects on the very low-income workers, and policymakers intend to help. According to neoclassical economics, employers demand less labor as its price increases (Ferguson, 1970). When the minimum wage increases, businesses face high production costs, forcing them to respond to this new expense. They offset this cost by minimizing the number of employees, reducing worker benefits and training, increasing purchase prices and being more selective when hiring. This action raises the unemployment rate, creating job competition among skilled and unskilled employees. As a result, individuals whose productivity falls below the minimum wage find it challenging getting new employment opportunities. (Randall &, Daniel, 1996).

David and William state that the imposed minimum wage mainly affects the market for teenage labor (1995). The equilibrium wages for this group remains low since young people are among the least experienced and least skilled members of the labor market. Most youths are also willing to trade low wages or no pay for job training. Abolishing the minimum wage can lower labor costs in competitive markets hereby motivating entrepreneurs to set up new firms. The

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most disadvantaged individuals such as ethnic minorities, low-skilled workers and youths would easily find low-paying job opportunities and become more skilled and accepted by the society. After gaining experience, this group would later come up with new businesses, creating more job opportunities for other people.

However, Laura (2013) argues that the demand for low-wage labor is always inelastic, meaning that the minimum wage has little or no effect on the level of employment. This study also shows that in a monopsony market (many sellers and one buyer), a minimum wage above the equilibrium wage increases employment. This set compensation also gives unemployed individuals incentives to search for jobs, for they are aware of what their minimum pay will be. This action, in turn, reduces employee turnover and increases their productivity, thereby boosting the economy as a whole. Moreover, minimum wage jobs allow workers to gain skills and experience, increasing their professionalism and competitiveness in the market.

In conclusion, opponents of this policy maintain that the minimum wage increases unemployment, poverty and labor costs. Supporters stress that it gives businesses a chance to hire high-skilled labor and boosts employee morale. It is evident that this policy has more adverse effects than benefits. Based on the above augment, the government should abolish the minimum wage.

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