Edexcel (B) Economics A-level

Theme 3: The Global Economy

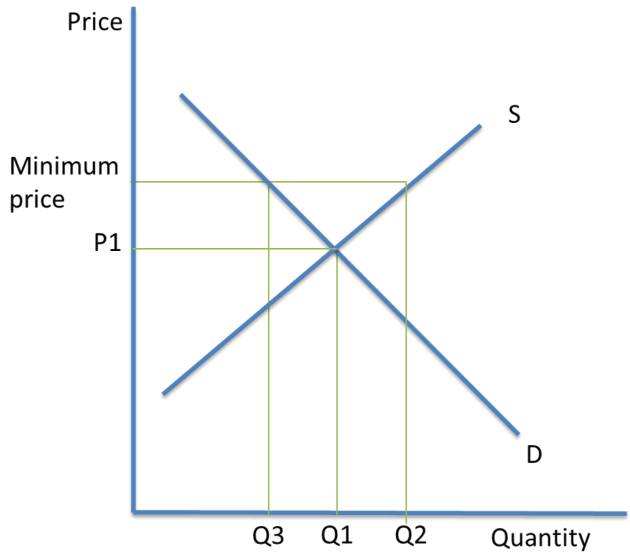
3.5 Global Labour Markets

3.5.3 Minimum wage legislation

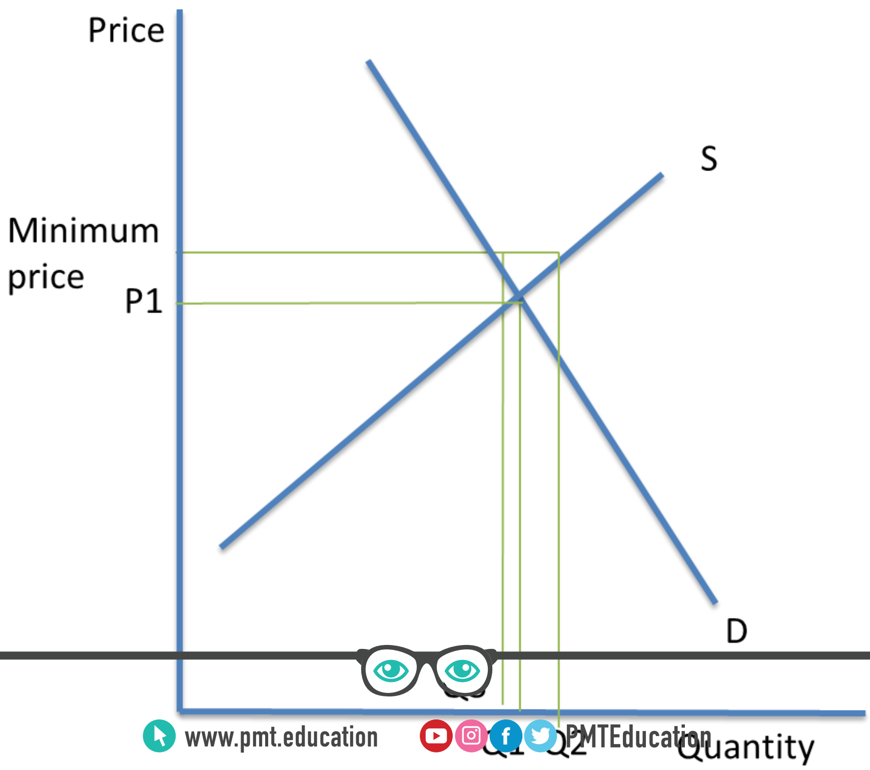
Notes

Minimum wages in developing and developed countries

- A minimum wage is an example of a minimum price. There is a National Minimum Wage in the UK.
- The minimum wage **has to be set above the free market price,** just like other minimum prices, otherwise it would be ineffective.



- The diagram above suggests that a minimum wage leads to a fall in the employment rate (Q1 – Q3). It depends on what level the wage is set at. An inelastic labour demand (diagram below) will mean there is only a small contraction in demand for labour (Q1 – Q3).



- There has been no evidence of a rise in unemployment with a rise in the NMW so far in the UK. Some firms say this is because the NMW is still relatively low.
- The NMW will yield the positive externalities of a decent wage, which will increase the standard of living of the poorest, and provide an incentive for people to work.
- It could make it harder for young people to find a job, because their lack of experience might not be valuable to firms who are paying more for their labour.
- The government might make more tax revenue, due to more people earning higher wages.
- A higher wage could make the country less competitive on a global scale, since they cannot compete with countries that have lower wages.

Skill shortages and their impact on international competitiveness

International competitiveness is the ability of a nation to compete successfully overseas and sustain improvements in real output and living standards.

Human capital is important for economic development, and it can be developed by filling a skills shortage. By developing human capital, the skills base in the economy would improve. This would improve productivity and allow more advanced technology to be used, since workers will have the necessary skills. Businesses struggle to expand where there are skills shortages. It also limits innovation and raises costs for firms.

By developing human capital, the country can move their production up the supply chain from primary products, to manufactured goods and to services, which can earn them more.

Countries also become more productive with a more skilled workforce. The more productive a country becomes, the lower its unit labour costs. This makes the country more internationally competitive.

If there are limited skills, the economy cannot expand its productive potential. The more skilled the workforce, the more productive it is. It also means goods and services are of a better quality, which improves international competitiveness.

Additionally, if the labour market is flexible and geographically or occupationally mobile, it can better respond to economic shocks and changes in demand or supply, which can help improve competitiveness. Skilled labour is generally more flexible than unskilled labour.

Migration:

Migrants are usually of working age, so the supply of labour at all wage rates tends to increase. Migration particularly affects the supply of labour at the lower wage rates, because migrants are usually from economies with average wages lower than the UK minimum wage.

There could be more competition to get a job due to the rise in the size of the working population.

Migrants tend to bring high quality skills to the domestic workforce, which can increase productivity and increase the skillset of the labour market. This could increase global competitiveness.

Migrant labour affects the wages of the lowest paid in the domestic labour market, by bringing them down. However, this impact is only small. For the medium and higher income households, it is hard to find evidence of worker displacement or depressed wages.
The skills of migrant labour could substitute those of the domestic market, so workers could be replaced. If the skills complement the domestic labour market, there could be a welfare gain through higher productivities.

Inequality and incentives

Recently, more part-time and temporary jobs have been available rather than full time jobs. This leaves people underemployed, and it limits how much they can earn. It became a problem during the Great Recession.

On average, those with a degree earn more over their lifetime than those who gain just A Levels. The wage gap between skilled and unskilled workers has increased in the UK recently. Jobs in the low-skilled service industries, especially in the public sector, tend to pay less than jobs in the private sector.

Even with equal pay laws, women still earn less than men on average. This could be due to career breaks and fewer hours worked on average than men, or because women are crowded into low-paid or part-time jobs, which may only require low skill levels. Women could also be discriminated against when it comes to promotions, which effectively locks out higher paying jobs. Although a gap still exists, it is narrowing.

Inequality motivates workers, which encourages them to learn new skills and work hard. A higher wage reflects higher productivity in a capitalist society, which results in wage inequality.

State pensions and welfare payments tend to increase less than wages, even though they are index-linked to inflation. This means that those on benefits see a smaller real increase in their income compared to those in jobs. This increases inequality. Moreover, recently welfare payments have been cut. Although this might encourage some people to find jobs, many people might be unable to work, so it lowers their income more.

In the UK, some taxes are regressive, which means that those on lower incomes bear a larger burden of the tax. This can increase inequality.