

Second thought about minimum wage and its relation to labor supply

Wan-Jiung Hu, Master student
Graduate Institute of Economics
National Taiwan University
Taipei, 100, Taiwan

Abstract

Minimum wage policy is usually thought to cause unemployment in classical economics. However, I show here it may also cause employment rate increasing as well as labor wage increasing if the government can catch the real market equilibrium point. Thus, we should have a second thought about the minimum wage policy. It can cause employment as well as unemployment depending on the setting level of minimum wage.

Introduction

In classic economics, the setup of minimum wage by government is usually related to unemployment. This is due to the deviation of labor market equilibrium. We can see the following graph: The black line is labor demand from company owners, and the blue line is labor supply from labor workers. The two lines cross at equilibrium point to reach labor market equilibrium. The wage level of this market equilibrium point is the equilibrium wage. However, if the government set a new minimum wage policy to raise to wage to the red line level, there will be a labor supply excess. Thus, unemployment happens. Thus, minimum wage policy will cause unemployment in the society.

However, we should consider a situation. Based on socialism such as Karl Marx theory, company owners tend to lower labor's demand(cost) to increase their profit. Thus, the appeared labor demand is not actually the true labor demand. We can see the right side graph. The appeared labor demand is shown as black line. The labor supply curve is unchanged because they are in the weak advantage side. The crossing point of the appeared labor demand and the labor supply line is the appeared equilibrium point. It appears as the market equilibrium. However, compared to the right side graph with real equilibrium, this appeared point actually causes unemployment. If the government setup a minimum wage policy to raise the labor demand curve to become the actual labor demand line(yellow line), then the labor

wage and the labor numbers in the new equilibrium will actually increased. However, if the government setup a too high minimum wage to shift to labor demand line to the purple line, the same labor excess phenomenon happens as the classic economics described. Thus, the minimum wage policy is not always bad. It may also be beneficial to the society such as improving Gini index.

