

The Impact of Minimum Wage System on Low-Income Groups

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Abstract. The minimum wage system sets a legal floor on the income of workers. It provides economic security for low-wage workers and ensures that their basic needs are met, thereby reducing poverty. For low-income workers, increasing the minimum wage directly enhances their earnings, living standards, and financial stability. As a research focus, the primary area of examination would be the precise effect of minimum wage adjustments on the income levels of those in low-paying jobs: analyze the changes in the real income of low-income workers after the augement of minimum salary and the improvement influence of family economic conditions. Second one is exploring the impact on this system changes employment sector: Examine whether raising the minimum wage causes employers that reduce hiring or layoffs, and the potential impact of such changes on low-skilled labor markets. The last one is analyzing the impacts of minimum wage policies of psychological and low-income groups' social wellbeing: Using questionnaires to understand changes in the perception of low-income workers about their job satisfaction, quality of life, and social status. The rise in this system significantly rose the income level of low-income workers, helped to alleviate poverty, and raised the basic standard of living of these families. In the short term, that increase may have a certain negative impact on some labor-intensive industries, in the form of a small number of job losses; But over the longer term, the job market stabilizes as companies adapt to increased costs and improve efficiency through technological innovation.

Keywords: Minimum wage system, low-income group, Job creation.

1. Introduction

The minimum wage system is a legal policy stipulated by the government, and all the the minimum salary level is acceptable under the normal working conditions of workers, and employers need to legally give employees the minimum wage within a specified time. The reason for this system is that make sure labour having enough salary to maintain a norm life, that is, to ensure that they are not exploited. The minimum wage generally does not include overtime pay, bonuses, tips, or wages earned outside the standard wage during regular working hours. The minimum wage also varies greatly from country to country. Sometimes in different parts of a country, the minimum wage is set depending on local economic conditions, the cost of living, and political decisions.

The minimum wage serves as a common yet contentious policy instrument. While it can be an effective means of redistribution by enhancing the earnings of low-skilled employees at the cost of other production elements (like more skilled labor or capital), it might also result in unintended job losses, potentially harming the well-being of those who become unemployed. A vast body of empirical research has explored how the minimum wage impacts both the wages and employment levels of low-skilled workers [1]. Minimum wage policies have been a significant focus of recent policy discussions at the federal, state, and local levels across the United States. Within the last two years, two major states, California and New York, have enacted laws to raise their minimum wages to \$15 per hour by 2022 or earlier. Additionally, over a dozen cities have implemented their own city-wide minimum wages in the past three years, often setting them significantly higher than both state and federal levels. Central to these debates is the key question: What is the overall impact of minimum wages on low-wage employment [2].

In 1993, Shanghai was the first city in China to establish a minimum living allowance system for urban residents, marking the beginning of the reform and institutionalization of the urban social assistance system. In the past 10 years, the development of this system can be broken down in two steps: the reform test basic system establishment. The first one: Reform pilot phase. (June 1993 -

October 1999) At this stage, creation and enactment of this system was basically a spontaneous act of local governments in various cities. From May 1995 to the end of May 1997, the creation and enforcement of the system have evolved into a coordinated effort by the Civil Affairs Department, a key agency within the central government. Starting from August 1997, this system's establishment and implementation have turned into a significant policy choice by the Central Committee of the Communist Party of China and the State Council, leading to a substantial increase in its development pace. In September 1999, the State Council issued regulations on urban residents' minimum living security, which took effect on October 1st. The significant advancement in the minimum living standard system occurred in the latter half of 2001, as the State Council resolved to tackle the financial constraints faced by the system.

This paper will study the evolution and current situation of the minimum wage system and the impact of the minimum wage system on individual and family income

2. Evolution and Current Situation Analysis of Minimum Wage System

The notion of a minimum wage has its roots in the late 19th century, with New Zealand and Australia being the first countries to enact such laws, in 1894 and 1896 respectively. Britain introduced a minimum wage law in 1909, initially targeting only certain industries, such as textiles and footwear. In early 1990 the New Jersey legislature went one step further, enacting parallel increases in the state minimum wage for 1990 and 1991 and an increase to \$5.05 per hour effective April 1, 1992. The scheduled 1992 increase gave New Jersey the highest state minimum wage in the country and was strongly opposed by business leaders in the state [3]. In the two years between the passage of the \$5.05 minimum wage and its effective date, New Jersey's economy slipped into recession. Concerned with the potentially adverse impact of a higher minimum wage, the state legislature voted in March 1992 to phase in the 80-cent increase over two years. The vote fell just short of the margin required to override a gubernatorial veto, and the Governor allowed the \$5.05 rate to go into effect on April 1 before vetoing the two-step legislation. Faced with the prospect of having to roll back wages for minimum-wage earners, the legislature dropped the issue. Despite a strong last-minute challenge, the \$5.05 minimum rate took effect as originally planned. [3] The roots of the minimum wage system extend back to the concluding years of the 19th century and the initial years of the 20th century in America. In this era, as industrialization progressed, a multitude of laborers encountered meager wages and precarious employment conditions. As a result, some labor organizations and politicians have begun calling for laws to guarantee workers a living wage. In 1938, the United States passed the Fair Labor Standards Act (FLSA), which contained provisions regarding the minimum wage, a major milestone in the modern minimum wage system. In the middle of the 20th century, with the advancement of globalization and changes in the labor market, many countries began to introduce or strengthen the minimum wage system. These countries include Canada, members of the European Union (EU), and some countries in Asia. The expansion of the minimum wage system reflects society's attention to the protection of workers' rights and interests, as well as the concern about income inequality [4]. With inflation and the rising cost of living, many countries have started to adjust the minimum wage regularly to maintain its real value. Some countries have adopted the concept of a "living wage", which means that the salary should be sufficient to cover a family's basic living expenses, which is usually higher than the legal minimum wage. There is an ongoing debate among economists and policymakers about the impact of minimum wages. On the one hand, it is seen as a tool to reduce poverty and inequality; On the other hand, there are concerns that it could lead employers to reduce the number of employees or reduce job opportunities, especially for young and low-skilled workers. Many countries and regions are exploring dynamic adjustment mechanisms that enable the minimum wage to be automatically adjusted according to economic indicators. Some cities or regions have adopted a higher minimum wage than the national level. With the impact of globalization and technological progress, the minimum wage system is also adapting to new employment patterns, such as worker rights issues in the gig economy. As of now, more than

90% of the world's countries have some form of minimum wage system, but the specific amount and adjustment mechanism vary greatly, from very low levels to near or above the middle-class income standard.

The implementation and evolution of minimum wage systems around the world reflect different attitudes and approaches to labor market interventions aimed at ensuring decent incomes for workers, reducing poverty, and promoting social justice. Countries have diversified minimum wage systems based on their economic conditions, labor market characteristics, social consensus, and political systems. In nations like the US, UK, Australia, and New Zealand, the concept of a minimum wage has been a longstanding tradition. In the United States, the FLSA, enacted in 1938, has undergone numerous revisions to adjust the minimum wage. However, disparities persist between the federal and state levels, with certain states opting for minimum wages that surpass the federal benchmark, a testament to the varying economic landscapes across regions. The UK introduced the national minimum wage in 1999 and has since gradually increased it, differentiating the minimum wage levels for adults, youth, and apprentices, and more recently introducing the "national living wage" to provide higher pay protection for older workers. European countries such as France, Germany, and Spain also have minimum wages, but the specific amount and adjustment mechanism are different, some are automatically adjusted according to the price index, and some are decided by the government and trade unions in consultation.

In Australia and New Zealand, the minimum wage system is more centralized, with independent wage review bodies regularly reviewing and adjusting the minimum wage to reflect changes in economic conditions and the cost of living. In developing countries, the implementation of minimum wage systems is more complex and subject to economic fluctuations, inflation and job market instability. India's minimum wage system, for example, varies by region and industry, and enforcement is spotty, with workers often struggling to pay less than the official rules. Although Brazil, South Africa and other countries have minimum wages, there are limitations in implementation and coverage, and it is difficult to fully protect the rights and interests of all workers. Globally, minimum wage systems are facing new challenges, such as global competitive pressures, the impact of automation and artificial intelligence on employment, and the rise of non-standard forms of employment, such as freelancers in the gig economy. These factors require minimum wage policies to be more flexible and inclusive to adapt to changing Labour market conditions. In general, the minimum wage system is regarded as a key measure to safeguard the rights and interests of workers worldwide, but its effectiveness and fairness depend on a country's economic strength, policy implementation, and adaptability to emerging labor forms. Countries are constantly exploring best practices to ensure that minimum wages promote both economic stability and social justice.

3. The Effect of Minimum Wage on Income

The studies on the impact of minimum wages include the impact on average wages and the distribution of wages; employment, unemployment, and hours worked; the distribution of wages and employment between the formal and informal sectors; the effects of minimum wages on tipped workers and social welfare; firms location decisions and minimum wages; the behavioral effect of minimum wages [5]. The minimum wage system represents the lowest legal compensation benchmark established by the government to safeguard the fundamental living standards of employees. This mechanism exerts a significant influence on individuals and households, yielding both beneficial outcomes and the possibility of certain hurdles. Primarily, its most direct consequence is an increase in the earnings of workers earning low wages. For employees earning the minimum wage, a raise in this wage allows them to work for more income. This enhancement contributes to elevating their standard of living and easing financial burdens, including the ability to better meet essential needs such as food, housing, education, and healthcare. In addition, higher incomes increase consumers' purchasing power, which stimulates economic activity and has a positive impact on the overall economy. However, the minimum wage system may also bring some potential negative effects.

Because of the increase in labor costs, enterprises may take measures such as layoffs, reduction of working hours, or automation to replace labor to control costs.

As a result, while some workers' incomes rise, others may be at risk of losing their jobs or having fewer opportunities, especially for less skilled workers. In addition, businesses may offset increased labor costs by raising the prices of their products and services, which could lead to inflationary pressures and higher prices for final consumers, which could offset the benefits of higher minimum wages. In general, the minimum wage system needs to balance its potential impact on the job market and the economy while raising the incomes of low-income groups. In setting the minimum wage, the government usually takes into account a variety of factors, such as price levels, industry characteristics, regional differences, and the overall health of the economy, to achieve the best balance between promoting fairness and efficiency.

Besides, the minimum wage system aims to ensure that workers receive enough income to maintain a basic standard of living, which has a profound impact on household incomes, especially among low-income households. An increase in the minimum wage is more than just an increase in personal income. It can significantly change a family's financial situation, affecting its members' quality of life, spending patterns, ability to save, and economic security. The increase in the minimum wage directly affects families who rely on low-wage jobs. When the main source of income for a family - the minimum wage worker - increases, the total income of the family rises, which helps the family to stay below the poverty line. The study by economists Muller and Steiner suggests that an increase in the minimum wage can greatly reduce the impact on poverty, especially if people consider the complex interplay between the tax system and the net income of households. Minimum wage policies are therefore seen as a poverty reduction tool that can directly improve the economic status of low-income households. As household income increases, family members' spending power increases and they can better meet daily needs such as food, housing, and education expenses. In addition, the extra income may also be converted into savings, providing the family with an emergency fund or investing in long-term goals such as children's education or health care. This change in consumption and savings patterns not only enhances households' economic stability and resilience but also helps boost economic growth, as consumption is one of the key drivers of economic activity. Minimum wage increases can also affect family members' employment decisions. For example, if one member of a family receives a more stable income as a result of an increase in the minimum wage, another member may choose to work fewer hours or stay home to care for the family, reflecting the flexibility of labor distribution within the family. On the other hand, a higher minimum wage may also attract individuals who would otherwise not be in the labor market to join the workforce because they see higher potential gains. Although minimum wage policies have a positive impact on household income, there are also some potential negative effects.

Faced with higher labor costs, companies may reduce costs by laying off workers, reducing working hours, or adopting automation technologies, which may affect the employment stability of households. Moreover, if increases in the minimum wage lead to higher prices for goods and services, households' real purchasing power could be eroded, especially for those households that do not benefit from wage increases. To sum up, the impact of minimum wage system on household income is complex, which involves the improvement of household economic status, the upgrading of consumption pattern, the transformation of saving behavior and the dynamic change of labor market. In formulating and adjusting minimum wage policies, the Government needs to take these factors into account in order to achieve the dual objectives of enhancing family well-being and promoting sustainable economic development.

4. Conclusion

A gentle rise in the minimum wage will not only aid in alleviating poverty and enhancing the living standards of low-income families but also spark consumption and foster the expansion of domestic demand, thereby exerting a favorable influence on the overall economy. However, the potential

negative effects should not be ignored, especially in small-scale enterprises and labor-intensive industries, where a higher minimum wage may increase employment costs and inhibit job creation, especially for unskilled young workers and first-time workers. In the face of the challenges posed by globalization, technological change, and emerging employment patterns, the minimum wage system needs to evolve to maintain its core function of promoting social justice while being flexible enough to adapt to changing economic circumstances. This requires policymakers to comprehensively consider factors such as economic growth rate, price level, corporate affordability, and labor market demand when setting minimum wage standards, to ensure that the minimum wage system can effectively protect workers' rights and interests without overly interfering with the natural adjustment mechanism of the market. Future research should continue to delve into the long-term effects of minimum wage systems, especially their adaptability, and impact in the context of the digital economy and green transition, to provide strong policy guidance for building a more equitable and sustainable global economic order. Through interdisciplinary collaboration, combining perspectives from economics, sociology, and labor law, people can better understand the multidimensional impact of minimum wage systems and contribute to inclusive growth and shared prosperity around the world.

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