

MICROECONOMICS AT WORK EXERCISE

MINIMUM WAGES [PRICE FLOORS]

REFERENCE: 'Minimum Wage: The States Get It' (by Aaron Bernstein), *BusinessWeek*, 29 November 2004, p. 91.

CHAPTERS RELEVANT TO THIS EXERCISE: 3, 13

CONTEXT

As is the case with the price of a *product*, the price of a *resource* (in the case of the resource labour, *the wage rate*) is set according to the forces of supply and demand. However, the forces of supply and demand may be over-ridden, e.g. by a government decreeing that the price of a product, or of a resource, should not be either above or below a certain level. Such a decision reflects the way that social and/or political factors are considered to be more important than economic ones. Thus, for example, a price *ceiling* may be set in the market for rental housing, whereby the price (the cost of rental housing) is not permitted to be set *above* a certain level; and a price *floor* may be set in the labour market, whereby a *minimum* price of labour (wage) is enforced (i.e. it is decided that no individual should be required to supply the service of their labour for less than a certain hourly rate). (For a discussion of the general principle see pp. 68–72 and as it applies to minimum wages see pp. 304–306.)

This article is about some aspects of the setting of minimum wages in the US, where the States (as distinct from the federal government) have constitutional (legal) power over the labour market.

QUESTIONS

1. How widespread is the policy of state governments to set the minimum wage at a level *above* that decreed by the federal government? How big is the differential?
2. Why do you think that this has occurred?

3. Explain the policy of pegging (or indexing) the minimum wage to inflation? Why is this considered an important issue?
4. On what grounds have the higher wage floors been seen as desirable?
5. On what grounds can the higher wage floors be opposed?