



## Chapter 15

# Interference in the labour market



# Learning Objectives

How can the government influence labour markets



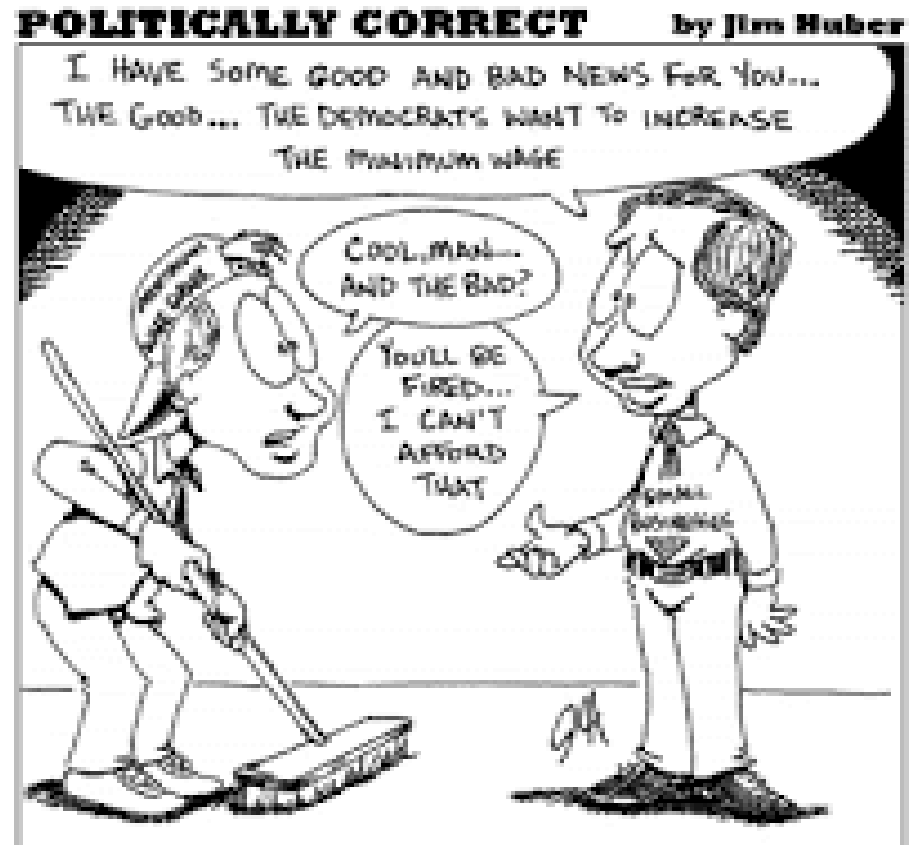
## Minimum wage

- What is it?
- Why does it exist?

## Chapter 13 – Interference in the labour market

# Minimum wage

One way in which governments interfere in the labour market is to set a minimum wage (legislation).



# Minimum wage

No employer is allowed to pay their workers an hourly rate below the limit set.

Employers face a penalty if they pay wages that are lower than national minimum wage.



# Minimum wage – Why?

- To benefit disadvantaged workers;
- To reduce poverty.





**Pause for  
an exercise**

Getting Started

Minimum wages in China

Page 64, Text Book



## HOMEWORK

Think about your country...

Tell me how much is the minimum wage and when did it started?



## Chapter 15

### Getting started:

- (a) Minimum wages are designed to raise the incomes of low paid workers.
- (b) Minimum wages are set by regional authorities in China. For example, Guangdong, China's richest province, said it plans to raise minimum wages by as much as 18 per cent in some cities in 2008.
- (c) The aim of minimum wages in China is to protect labourers and benefit low-income labourers working at factories, particularly migrant workers who have left rural farming areas for the city.
- (d) Since last year, Chinese residents have seen prices of food and other basic goods increase more than their pay. As a result some have said that this could lead to social unrest. Minimum wages are being increased to help Chinese residents meet rising living costs and hopefully avoid the social unrest.



# Learning Objectives

## Minimum wage

- Effects on wages and employment

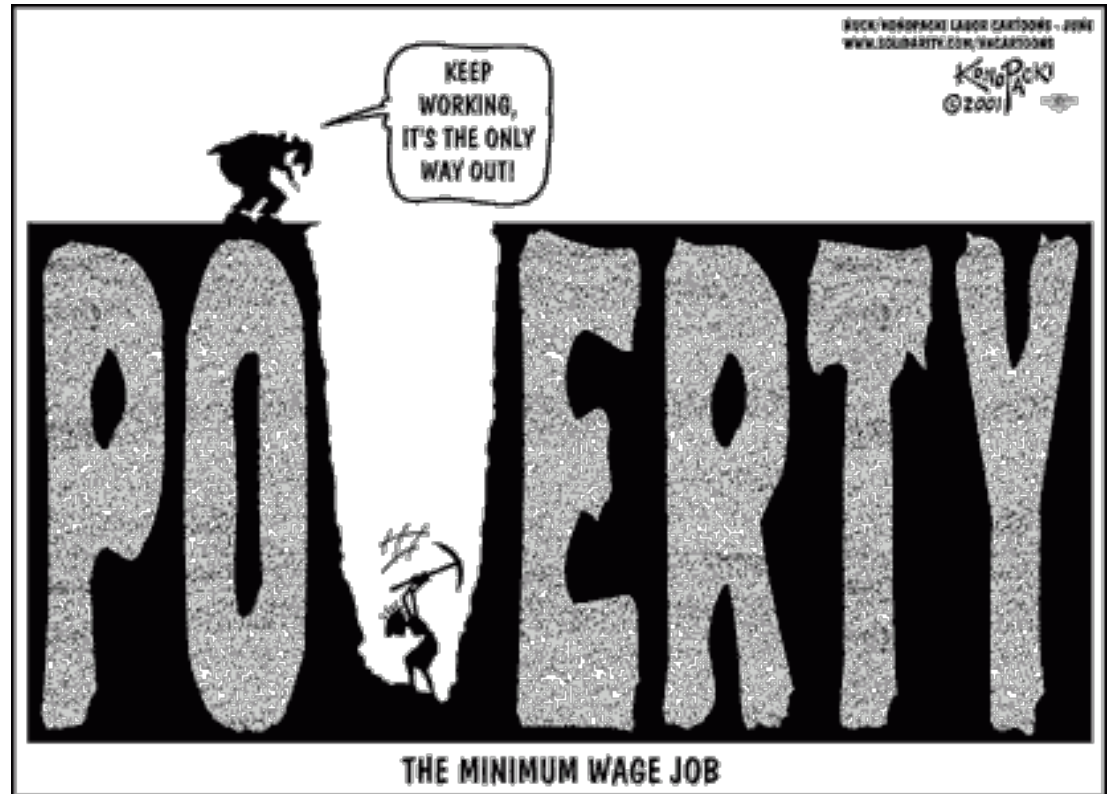
## Trade Unions

- What is it?
- Why do they exist?

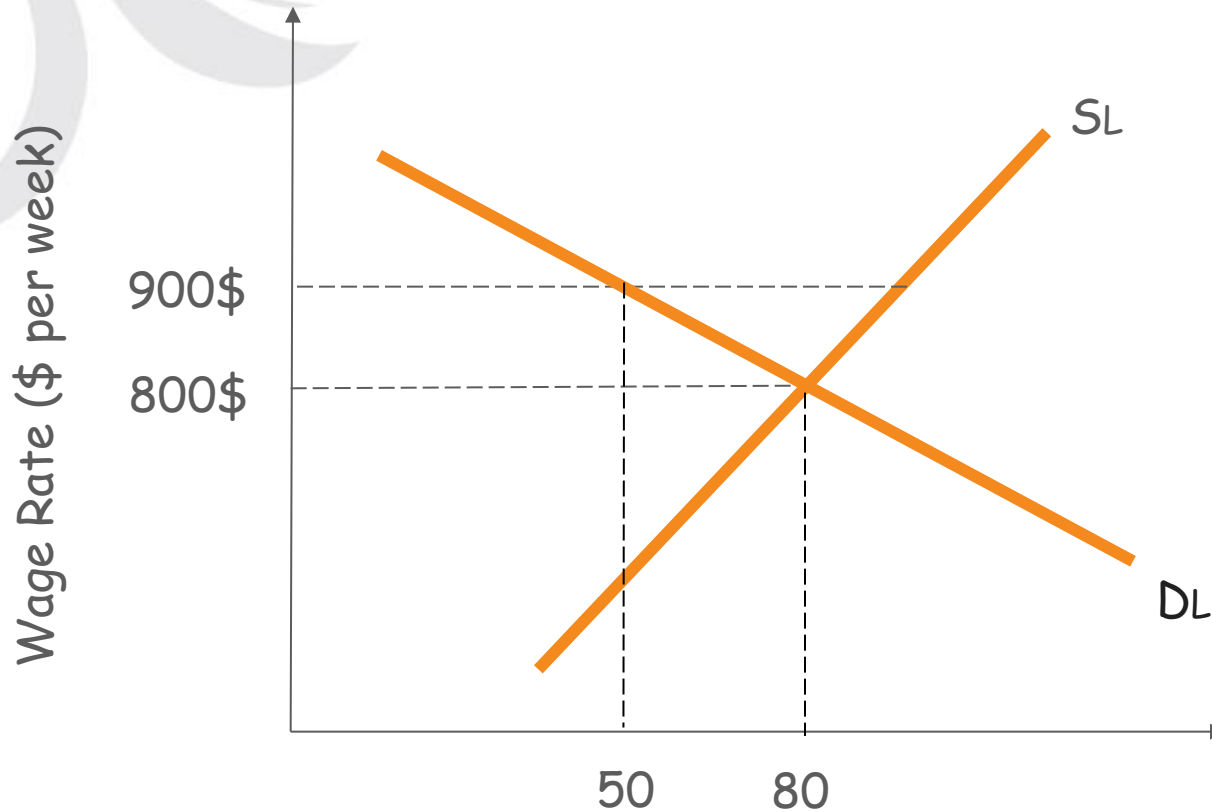
## Chapter 13 – Interference in the labour market

# Effects of minimum wage

Supply and demand analysis can be used to show effects of a minimum wage on wages and employment in labour markets.



# Effects of minimum wage



# Do minimum wages cause job losses?

Analyse the graphs  
on our text book...



## Chapter 13 – Interference in the labour market

# Trade Unions

Organisations that exist to protect the interests of workers.



Solidarity, June 30, 1927: The Hand That Will Rule the World—Our Big Union.

# Trade Unions – Why do they exist?

- ❖ Negotiate pay and working;
- ❖ Provide legal protection;
- ❖ Put pressure on the government;
- ❖ Provide financial benefits.



**WORKERS  
RIGHTS  
ARE  
HUMAN  
RIGHTS!**



# The power of Trade Unions

1960s and 1970s: disputes with employers

1980s: government passed legislation to weaken trade unions



**Equal Work  
Deserves  
Equal Pay!**

# The power of Trade Unions

## New laws:

- ❖ Required trade unions to have a secret ballot before a strike;
- ❖ Allowed business to sue for compensation if trade union did not abide by the law;
- ❖ Banned secondary picketing
- ❖ Made closed shops illegal

# Trade Unions – Effects on wages and employment

A strong trade union may be able to force wages up in some labour markets.



# How to avoid job losses

- ❖ If labour productivity rises at the same time;
- ❖ If employers are able to pass on wage increase to customers in the forms of price rises
- ❖ If profit margins are reduced





# Homework

1) Economics in practice:

Minimum wages in Japan

Page 68, Text Book

1) Key words:

Write in your exercise book

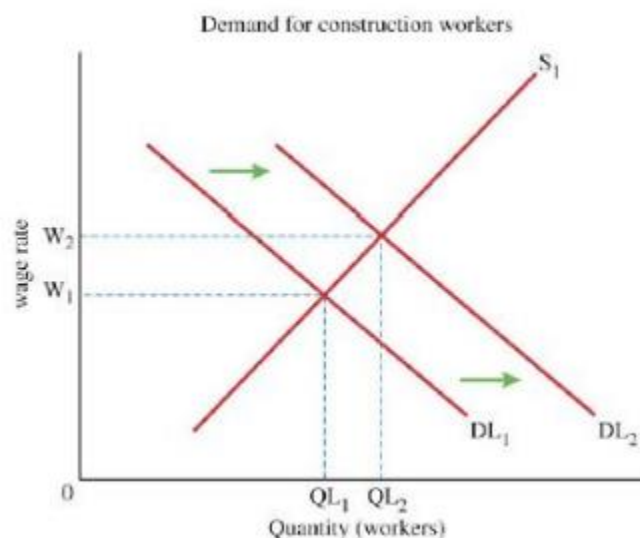


## Economics in practice – Wages in Norway:

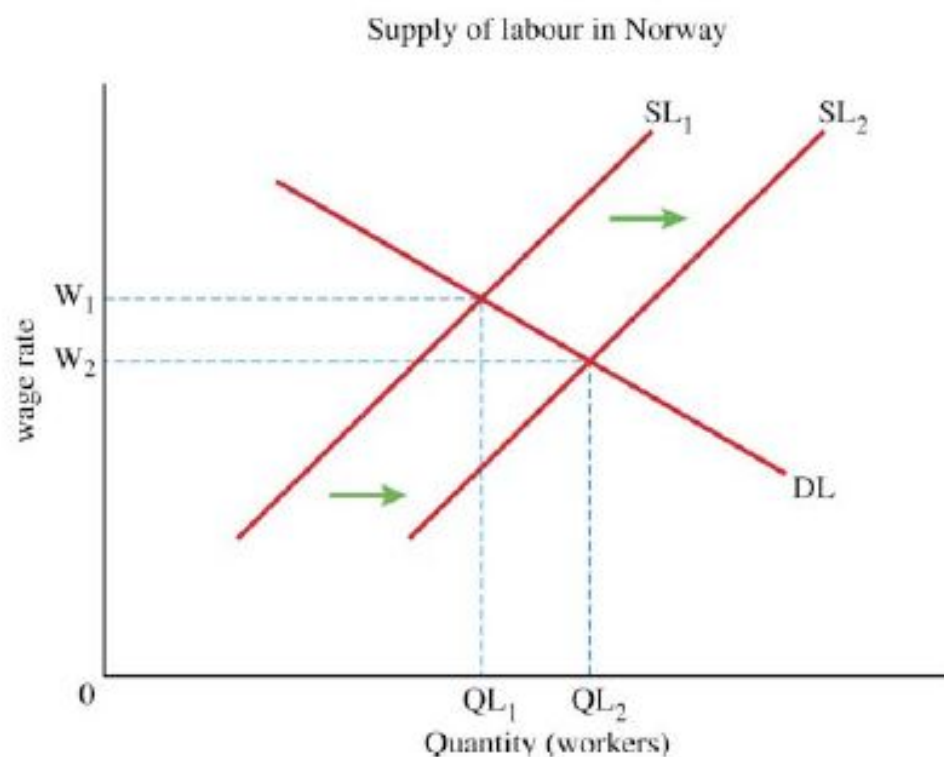
- (a) The demand curve for labour slopes downwards, from left to right. This is because the wage rate and the demand for labour are inversely related. This means that when wages rise firms demand fewer workers and when wages fall they demand more. One of the reasons why the demand for labour falls as wages rise is because higher wages leads to higher production costs. As a result, firms reduce their supply and therefore need fewer workers.
- (b) There will be a relatively plentiful supply of workers in jobs which require no skill, training, qualifications, experience or special talent. As a result, wages for construction labourers will be relatively low. Since almost anyone can do these jobs, supply is high, which forces wages down. In contrast, it takes many years to train as a teacher and there are certain entrance qualifications. For example, in the UK a teacher must have a degree. As a result, the supply of teachers is much lower than that of construction labourers which forces teachers' wages up.



- (c) D is the correct answer.
- (d) If the government raises the retirement age in Norway, people will have to work longer before they are entitled to a state pension. Therefore people will remain part of the working population for longer. Most people will have to work to earn money to support themselves.
- (e) The construction boom in Norway will result in an increase in demand for construction workers. This will cause the demand curve for labour to shift to the right, from  $DL_1$  to  $DL_2$  in the diagram below. This will force up the wage rate for construction workers from  $W_1$  to  $W_2$ .





- (f) The Norwegian government has tried to encourage immigration into the country. The affect of this is to increase the supply of workers in Norway. This is shown in the diagram below by a shift in the supply curve from  $SL_1$  to  $SL_2$ .




## Economics in practice – Minimum wages in Japan and the UK:

- (a) Figure 6 shows an international comparison of minimum wage levels. The highest minimum wage, as a percentage of the average wage, exists in Ireland where it is nearly 60 per cent. The lowest is in Korea where it is less than 30 per cent. However, Japan is the third lowest at around 30 per cent. So it could be argued that Japan is due for an increase in the minimum wage.
- (b) The increase in the minimum wage in Japan is part of the government's efforts to close the gap between the rich and the poor and to boost economic growth. The Prime Minister has been under pressure recently to improve the livelihood of low-wage workers amid growing public outcry that the gap between the rich and the poor is increasing despite the current economic recovery.



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- (c) Minimum wages are enforced in Japan by a system of fines. Employers who are caught paying workers below the minimum wage will face financial penalties. The government said it would sharply raise fines on employers who pay workers below the legal standard as part of the new legislation.
  - (d) C is the correct answer. The purpose of a minimum wage is to increase the wages of workers who are poorly paid. Obviously, this is only part of the workforce in an economy.
  - (e) Unions have a better chance of securing higher wages if they are powerful and can exert pressure on employers. However, they are also likely to be successful if the employer can afford to pay higher wages. In this case unions feel that companies will be making higher profits next year. This suggests that they may be able to pay workers more.

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- (f) When trade unions interfere in a labour market, they can force wages up. However, this may be at the expense of jobs. This is because the demand for labour falls when wages are higher. However, it may be possible for unions to secure higher wages without lowering levels of employment. Job losses might be avoided if labour productivity rises at the same time or employers are able to pass on wage increase to customers in the form of price rises or if profit margins are reduced. Consequently, it is not always true that wage increases secured by trade unions will result in lower levels of employment.
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