

[Woo time on tax poverty](#) [1]

Written by [Tim Worstall](#) [2] | Thursday 7 November 2013



Yes, it's still tax poverty week and the claims about moving from the current minimum wage to the living wage are coming in thick and fast. The latest piece of woo on offer [is this](#) [3]:

Unlike previous research, today's Landman Economics Report looks at what would happen to the jobs market as a result of the stimulus to the economy from raising the pay of millions of low paid workers to the Living Wage. More people spending money in local shops and a reduction in the amount the government needs to spend on in-work benefits. The report finds that, when you take this into account, shifting the NMW up to the Living Wage could create an extra 58,000 jobs.

Howard Reed manages to reach this amazing conclusion, that raising the price of labour will lead to an increase in the demand for labour, by simply assuming away the effect that raising the price of labour will have.

For these two reasons, I have assumed here that the short-run impact of reduced profits on consumer demand is zero.

There won't be any bad effects because I have assumed in my workings that there won't be any bad effects. That's bringing the economist who assumes a can opener into disrepute.

I have to admit that I much prefer this point made by my fellow Fellow, [Gavin Kennedy](#) [4]:

Employee tax payments go to the government, so removing them for the 'Living Wage' does not affect employment because the total wage cost remains the same, and does not have detrimental employment effects.

The argument against raising the minimum wage is that yes, there really will be unemployment effects. The argument in favour of reducing the tax bill on those in employment is that it will still increase their incomes but it will have no effect whatsoever on unemployment. Indeed, removing, as Gavin points out, the employers' NI would probably *increase* employment.

As before, we do not have a problem with low wages in this country, we have a problem with taxes being too high on the lowly paid. It is all a matter of tax poverty, nothing else.

And now for the ritual conclusion: if you want the lowly paid to have more money then just stop taxing them so damn much.

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