On the effects of "living wages" [1]

Written by **Tim Worstall** [2] | Saturday 12 June 2010

Reports are [3] that Boris has decided to get behind the campaign to raise the "living wage" in London. Two important points which I fear are misunderstood about said living wage.

1) The difference between what we are told is a living wage and the current minimum wage is almost entirely the amount of tax and national insurance that must be paid (quite despicably) on such low wages. It isn't that wages are too low for the low paid: it is that taxes upon the low paid are too high. This leads to the interesting point that should income tax be lowered upon the working poor, as the coalition intends, then the living wage should fall.

2) The reason that Boris gives for supporting the living wage is a little off:

> I became convinced by it talking to people [in charge of] very large organisations who'd had people on quite low wages - very low wages - and who'd found that it generated loyalty, and that it thereby enabled them to cut down on their employment costs in hiring and firing.

Let us turn to that horrendously commie pinko economist (and Nobel Laureate to boot) Paul Krugman [4]:

> ...there are cases in which companies paying above-market wages reap offsetting gains in the form of lower turnover and greater worker loyalty, raising minimum wages will lead to similar gains. The obvious economist's reply is, if paying higher wages is such a good idea, why aren't companies doing it voluntarily? But in any case there is a fundamental flaw in the argument: Surely the benefits of low turnover and high morale in your work force come not from paying a high wage, but from paying a high wage "compared with other companies" -- and that is precisely what mandating an increase in the minimum wage for all companies cannot accomplish.

The living wage only has these desirable effects (well, we might assume they are desirable effects) only when the living wage isn't common, indeed, when it is uncommon. As Professor Krugman concludes:

> In short, what the living wage is really about is not living standards, or even economics, but morality. Its advocates are basically opposed to the idea that wages are a market price--determined by supply and demand, the same as the price of apples or coal. And it is for that reason, rather than the practical details, that the broader political movement of which the demand for a living wage is the leading edge is ultimately doomed to failure: For the amorality of the market economy is part of its essence, and cannot be legislated away.

If we wish to increase the incomes of the working poor (which we might well wish to do) we are forced to consider after market methods of doing so, not interventions directly into the market. That might include benefits, tax credits, all sorts of things really: but perhaps the best and most obvious would be to stop taxing them so damn much in the first place.

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