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The immorality of taxing the minimum wage [1]

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If I might make a modest moral suggestion? One that I'm hesitant to advance: for of course different people have different morals and ethics. That's why we want a free and liberal society, so that we can each live according to our own code of what is indeed moral: as long as everything is among consenting adults and fist swinging stops short of another's nose then *chacun a son gout*.

However, we already find that we've a major intervention into our economy on such moral grounds: the national minimum wage. I, and most of us here, would argue that we shouldn't have an NMW at all. If the market value of labour isn't high enough (however you calculate "enough") then it is better to compensate for that rather than attempt to fix prices. However, I think most of us would agree that the NMW is here to stay politically. The argument oft presented being that there is some "fair" value of labour, that fair value being apparently £6.08 an hour at present. Or perhaps £7.60 an hour or higher if you listen to the Living Wage folks.

I've a piece in The Telegraph [3] which goes through the numbers and I've done similar here in previous years. The basic point that I'm trying to get across is that people are not properly accounting for the tax system when they discuss these low wages.

The difference between the living wage and the minimum wage is almost exactly, to within pennies per hour, the amount of tax that poor people are charged on their wages. It therefore lies within the power of the government to make the NMW that Living Wage: just stop taxing people who make that NMW. When regarding the NMW itself, we've that argument that it would be immoral for people to earn less for their labour than their £6.08 and hour. In which case, why is it moral that government gets a cut of it to pay for government's expenses? Either £6.08 is the minimum moral amount in which case the State gets none of it or £6.08 is not the minimum moral amount in which case why do we have an NMW?

Which brings us to my modest proposal. The income tax allowance, the national insurance thresholds and the national minimum wage should all the same amount. We should pass a law that says that they must, always, be the same amount. If the minimum wage is £6.08 an hour (and the normal working week 40 hours a week, 52 weeks a year) then one starts to pay income tax and NI at £12,646.40 in annual income and not a penny before. If we want to raise the NMW to £7 an hour then that's fine: but no one then pays tax before £14,560. If some fool Chancellor of the future (and we can bet on having at least one of those) decides that he wants income tax to start at £5,000 then the NMW must, at the same time, fall to £2.40 an hour.

If there is indeed a moral case that there is some minimum permissible price for an hour of someone's time then there is exactly that same moral case against our rulers helping themselves to some of that pittance. This system would make clear and apparent that moral argument. By enshrining it in law we remove any possible wriggle room for the future.

We also encapsulate into law the most obvious and simplest truth about poverty. If you want to increase the incomes of the poor then just stop taxing them so bloody much.

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