Unravelling the minimum wage [1]

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A report out yesterday [3] said that in real terms, the minimum wage in the UK has lost much of its value. That is making life really hard for the people who have to live on it. Both statements are true, but there is a wider picture.

First, the minimum wage only helps those who are actually in work. Their wages have to be higher than they might otherwise have been. But minimum wages do nothing at all to help people who do not have a job and so don't have a wage ? indeed, they help to create this situation in the first place. And there are millions of those, including around a million young people.

Indeed, minimum wages make it harder for jobless people to find a job. Particularly young people without experience, other people without skills, not to mention women and ethnic minorities against whom employers commonly discriminate. It has a particularly bad effect for young people, without job experience or who lack skills or the habits of work. Quite simply, they not worth so much to an employer; and if employers figure they are not worth the minimum wage ? plus national insurance, pension benefits and everything else that has to be added in to the employment bill ? then they simply won't get hired.

Many young people are prepared to work for less than the minimum wage simply in order to get some experience and to have a positive reference on their CV. We see that all the time with Parliamentary interns, whom MPs are very willing to take on as unpaid dogsbodies. And for hundreds of years, apprentices have been paid little or nothing, but have struggled along anyway because they knew that they were learning a trade. When we raise the minimum wage, we prevent these people being taken on at all. So they don't learn a trade. They learn how to live off benefits, which is exactly the wrong lesson.

International studies show that minimum wages have a negative effect on employment, and are associated with worse terms and working conditions ? since tightening terms and conditions, or spending less on the work environment, is one way that employers can offset the extra cost imposed by the hourly minimum. And that it is young people and minorities who are worst affected. For years, such effects have not been obvious in countries like the UK, where we enjoyed a massive boom on the back of reckless government borrowing and cheap money policy. But now the party is over, the effect is all too obvious, as a million young people will tell you.

When you fix prices, you get shortages. By fixing the price of labour too high, the minimum wage causes a shortage of jobs. It is hardly a difficult thing to understand.

It may sound harsh, but we should scrap the minimum wage. People working in minimum-wage jobs won't thank you ? though the reality is that employers must think those workers worth the minimum wage rate or they would not hire them. The people who will benefit are those who at the moment cannot break into starter jobs and get their first foot on the career ladder, and who would be willing to work for less. Who are exactly the sort of people that the minimum wage was meant to help.

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