

[Help the unemployed: abolish the minimum wage](#) [1]

Written by [Sam Bowman](#) [2] | Friday 12 November 2010



It's not often that I have quite unreserved praise for a government policy, but Iain Duncan Smith's welfare reforms are a rarity. Graduating welfare payments to ease people on benefits into work, withdrawing them from people who turn down jobs and simplifying the system are all good measures which will reap dividends in the years to come.

It is regrettable that the government has decided to increase the Department of Work and Pensions' budget to pay for these measures, when the money could have come from the already-bloated welfare budget, but this is a relatively minor point. The reforms are timely and much-needed, and have been implemented almost exactly as conceived.

The government can go further to help the unemployed, however. As Eamonn Butler argued last night on Jeff Randall Live, the minimum wage should be abolished immediately to allow the private sector to create jobs for the currently-unemployed. Currently, this prices the unskilled and inexperienced out of the market. If their labour is worth less than the minimum wage of £5.93/hour, no employer can hire them without losing money.

This doesn't affect most workers, whose experience makes them more valuable than this, but it creates an artificial barrier to entry for the long-term unemployed who lack these skills. All economics students learn that a price floor will create an oversupply because supply exceeds demand. The same goes for the price of labour. Supply of labour will exceed demand (ie, jobs), creating unemployment.

As Ludwig von Mises [said](#) [3], 'Unemployment in the unhampered market is always voluntary'. In a free market, unemployed people will price themselves down to what they are worth to get a job. If you prevent them from doing this through the minimum wage, you'll condemn them to involuntary unemployment. Duncan Smith has done a lot to help the unemployed get back into work, but unless he removes the biggest government barrier to employment, all of it might be for nothing.

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