

BACK TO BASICS

ween the prescribed minimum and what his employer chose to pay was made up by the parish. Thus the minimum wage became a maximum wage, and labourers were enmeshed in a universal system of pauperism which continued for almost 40 years.

There is a certain familiarity to this picture. Nowadays, we call it the "poverty trap." Not only was the Speenhamland system very similar to the various work experience and youth training schemes which blossomed in the 1980s, but elements of the same thing apply in the operation of the present system of unemployment benefits. As we shall see, it is still the case that the dole has a major effect on wage levels.

In Britain last year, a single unemployed person received £39 per week. In addition, unemployed people receive housing benefit; rent or mortgage interest are paid by the state, and a typical figure might be about £40 a week. In addition, unemployment gives access to a number of other concessions, such as cut-price admission to local authority sports facilities, the value of which is difficult to compute.

As a general rule, people will not work if they will be worse off in paid employment, and working itself incurs additional costs of at least £10 a week in travel, meals out, clothing and so on. On taking full-time employment, unemployment benefit is withdrawn immediately and other benefits and income supplements taper off sharply, springing the notorious poverty traps.

In one respect however, the pauper of 1800 was better off than his counterpart in 1991: on taking up work, the modern pauper has to pay tax on his wages, because the income tax threshold is now so low that for every £1 earned over £62.50 a week, the worker receives only

ONE suggestion for dealing with unemployment, if not low pay, is that put forward by Patrick Minford, Professor of Economics at Liverpool University.

Minford has argued that a reduction in unemployment benefits would encourage those without jobs to accept lower wages and so "price themselves into work."

Although this idea still enjoys a following amongst right wing politicians, it is fortunately regarded as unacceptable, because present benefit levels are already only just about sufficient to keep body and soul together.

But Minford is correct in saying that the way to reduce unemployment is to reduce the minimum price of labour. What he has ignored, at least in his public statements, is that an alternative approach exists - to eliminate the "tax wedge" and poverty traps built into the present system of tax and benefits.

This is, however, easier said than done, because simple arithmetic dictates that the only completely effective solution would be the introduction of a "basic income" for all, on the lines once proposed by the Green Party; everyone would receive a basic income as of right,

75 pence, and this is subject to further tax deductions in the guise of National Insurance contributions.

Now it is these considerations that fix the present minimum wage, to conform with a general principle: wages are the least that people are prepared to accept. For the reasons just outlined, the minimum price of labour in normal full-time employment is around £90 a week in take home pay; it is not worth going to work for less. There is a further point of significance about this figure. For an employee to receive this amount in take home pay, the employer incurs a gross labour cost of around £110. In this way, benefit levels and tax rates com-

and those receiving small earnings would not lose benefit.

In the Green Party's proposal, the money paid out to those not in need was to be clawed back through the tax system, by unspecified means. The idea was that, with a basic income set at £40 a week, it would be worth going to work for a small wage as there would be no loss of benefit.

Amongst other advantages would be the reduction in the army of idle people, since the basic income concept would entirely eliminate the barriers which prevent marginal labour from pricing itself into work.

A restructuring of the tax and benefit system around the basic income idea is undoubtedly worth considering, because a substantial number of people already receive state benefits of one sort or another: unemployment benefit, sickness benefit, child allowances, student grants, old age pensions. Because these payments are means-tested or subject to qualification rules, a vast and no doubt expensive, Kafkaesque bureaucracy has grown up to administer the system, which bamboozles and humiliates those caught up in it.

If nothing else, simplification would yield substantial economies.

bine to set both the minimum wage and the minimum price of labour. The difference between the two is what is often described as the "tax wedge".

The £90 a week applies to normal full-time employment, but some people are willing to accept lower pay for home working, for example in the clothing industry, because it gives them flexibility and they avoid the time and expense of travelling to work. These are important considerations for women with young families.

Low pay is also found where the work is highly casual, or if there is an element of illegality. Immigrants without work-per-

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