

# Cash in, Kinnock



• Neil Kinnock

**LVT can boost minimum wage aspirations of Labour, says HENRY LAW**

IF THE next general election brings Labour, led by Neil Kinnock, to power, we can expect it to introduce its promised minimum wage legislation. It would not be the first time that governments in Britain have tried to regulate wages.

The first attempt was made six centuries ago, in the reign of Edward III, and there were further Acts in the reigns of Elizabeth I, James I and George II. The Elizabethan act provided that the justices of the peace should meet annually and assess the wages of farm labourers and certain other workmen. Penalties were imposed on all who gave or took a wage higher than the figure laid down. This was maximum wage legislation; the Act of James I was minimum wage legislation, since it imposed a penalty on all who gave a wage less than that fixed by the magistrate.

These laws were still in force in the closing years of the 18th century, but it seems they had long been almost entirely ignored. If invoked at all, they were regarded as laws for fixing maximum wages. By this time, a crisis was approaching.

The economic position of labourers in England deteriorated as rural enclosure gathered pace after the 1760s.<sup>1</sup> Enclosure had been going on since the 13th century, but it has been estimated that as late as 1685, 60% of the cultivated land area of England remained unenclosed.

People then enjoyed a complex and elaborate set of ancient rights: to graze cattle and geese, to gather firewood, to glean and, most important of all, the ownerships of strips in the common arable fields. Such rights provided the opportunity to live

by a variety of means, of which work as a paid labourer was but one.

With enclosure, these rights were extinguished. The accompanying agricultural developments, notably a widespread change from arable to pasture, led to increasing poverty and a fall in the demand for labour. Wages fell and increasing numbers of poor families were forced to rely on parish relief. By 1795, the combination of widespread poverty and rising food prices led to the eruption of riots all over England.

As a response, there were proposals for regulating the wages of agricultural labourers, by relating pay to the price of wheat. In 1795, a Bill was introduced into Parliament, which provided for the setting of wages every year, with fines for employers paying less than the prescribed rates. Initial reaction was favourable, but the Bill was rejected without a vote being taken.

The feeling was that it was better to allow wages to find their own level. The year 1795 saw, however, the introduction of a variety of measures, some short lived, which attempted to remedy the lot of the poor. To the student of welfare and wage control, the most important of these was a formula devised by a group of Berkshire magistrates who met at the Pelican Inn, Speenhamland, on 6th May 1795.

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to it are or can easily be made tax deductible; this is where the element of sponsorship comes in. The only relevant taxation must be the Schedule E income taxation (and national insurance) which is deductible from employees' salaries, but I imagine that the Trust has been able to reduce these by taking on volunteers and/or employees with extensive benefits-in-kind which the Inland Revenue value at a very small amount. What you have then is a single tax community, with no taxes on labour, wealth or capital; and economic rent being applied for the benefit of the community.

Is it appropriate to charge an

entrance fee? Should entrance not be free? In my view, the users of land should pay a fee, first to pay for improvements, restorations and repairs, and secondly as a user fee - effectively an economic rental payment. To the extent that they do not, the rents and values of adjoining sites not owned by the Trust must be driven up. The Trust therefore ought to charge fees and use the moneys so raised to buy up more of the coastline.

*\*Further information about Enterprise Neptune can be obtained from: Coast and Countryside Appeals Manager, The National Trust, Heywood House, Westbury, Wiltshire BA13 4MA.*

THE purpose of the meeting was to raise wages, and so make the labouring classes independent of parish relief.

The Speenhamland system was based on a table of allowances tied to the price of bread. What happened was this.

Parishes would find work for the unemployed by sending them from house to house; this was known as being "on the rounds". In some places, householders were bound to provide employment. Elsewhere, the "roundsmen" were wholly paid by the parish. If a labourer was employed, the difference bet-

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when 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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mits or people drawing unemployment benefit whilst working often receive well below the normal minimum wage, although they might well be better off than if they were in regular paid work. Unofficial practices of this kind are widespread in the catering industry.

THIS SETS the context for Labour's proposal, which provides, initially, for a minimum wage of £3.40 an hour, 50% of the male median earnings. Labour sees this as a first step towards its ultimate aim of bringing wages up to the Council of Europe's "decency threshold," two-thirds of average adult earnings.

What does this mean in practice? Assuming a 38-hour week, £3.40 an hour works out at about £130 per week. This is hardly a lavish amount; it might support an adequate standard of living in some parts of the country, but certainly not in London and the South East, where it would be hard to rent a room for under £50 a week, few apartments can be bought for under £50,000, and repayments on a mortgage of £25,000 are around £60 per week.

In reality, our employee would never actually see anything like £130, for £16.75 would go on Income Tax, and a further £8.10 in National Insurance. This leaves £105.15 in take-home pay, about £15 more than the present minimum; tax works out at an overall rate of 19%.

This is not quite the whole story: an employer paying a gross wage of £130 a week is liable for £11.22 National Insurance contribution, and so incurs a gross labour cost of £141.22. The difference between take home and gross pay will amount to a labour tax surcharge of almost 26%.

And there is one further point. About £50 will be spent on goods

and services which are subject to VAT at 17.5%, and a further £7.45 will be handed over to the government in this way; thus our £130 gross pay has a net purchasing power of £97.70.

*Putting all of this together, anyone receiving Labour's proposed minimum wage would receive £2.57 an hour net, at a gross labour cost to the employer of £3.72. The total effective tax rate would be 31%. Whatever else Labour's proposal will do, the UK will remain a low-wage high-labour-cost economy.*

At present, as we have seen, labour cannot be purchased for less than £110 per week.

- On the supply-side, it means that a worker is therefore unemployable if he cannot produce goods and services to the value of at least this amount. Those with little in the way of skill are thereby kept out of work altogether: school leavers, the poorly educated and people with disabilities.

- On the demand side, entire categories of low-level work go undone, because there is a limit to what anyone is prepared to pay. As a result, labour-intensive employment has disappeared even where machines cannot do the work. The effects have been felt most acutely in the public service sector. Station porters and bus conductors are a thing of the past, many shops are understaffed and the health service is under constant pressure, whilst the dole queues are a permanent feature of the economic landscape.

There is work to be done, there are people willing to do it, but something is keeping the two apart. Minimum wage legisla-

tion will just make matters worse.

People will argue about the figures, but it will add to unemployment by applying a further squeeze on marginal labour and marginal work. In the final analysis, it will also prove unenforceable. If working, perhaps illegally, for sub-standard wages is preferable to any of the alternatives, people will continue to accept them and keep quiet about it.

WAGES are determined by the laws of economics and not by government legislation. But it does not automatically follow that unemployment and low pay should be accepted as inevitable; these evils have to be recognised as symptoms of an underlying malaise.

There are three factors of production: land, labour and capital. Nothing blocks the market in capital, but, as we have seen, the tax and benefit system acts as a barrier to labour.

The third factor of production, land, is subject to severe blockage, because there is no real incentive encouraging owners of land and buildings to price their property into use; land values do not fall to market clearing prices. This has a depressing effect on the economy as a whole and the labour market in particular. Writing in 1881,<sup>2</sup> the economist Henry George noted the buoyant demand for labour in California during the late 1840s, and attributed the thriving high wage economy to land availability, as new territories were being opened up for settlement.

A more recent study,<sup>3</sup> tracing the history of unemployment in England, demonstrated that it could be directly related to land enclosure. Both authors proposed the same remedies: the taxation of land values, to dis-

—REFERENCES—

- <sup>1</sup>Hammond and Hammond (1911), *The Village Labourer*, Longmans.
- <sup>2</sup>George, Henry (1881), *Progress and Poverty*.
- <sup>3</sup>Geary, Frank (1921), *Land Tenure and Unemployment*, Allen and Unwin.

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# ANTHOLOGY TO SAVOUR

FRED Harrison's chapter in *Green Light On Europe*<sup>1</sup> ties together several of the threads that run through the anthology of 30 contributions by authors from 16 countries.

The strongest thread of all is the belief that "it may not be too long before the Second World joins the Third World in subsidising the First World" (Edward Goldsmith), i.e., through providing under-valued raw materials and cheap repositories for waste. "Yet ... overcoming the West-East divide will intensify yet further the North-South divide" (Freda Meissner-Blau and Paul Blau).

Harrison commences with the communist experiment, which comprised the ultimate failure to value nature — being based on the Labour (-only) theory of Value. Hence, Comecon produced its own Third World by subsidising the military-industrial complex. Environmental problems were "an inextricable part of the decision to end one social system and begin the search for a new approach".

But this search "has exposed the vortex in the philosophical system which underpins the market economy of the West", he continues.

In their theory of property rights, the founding fathers of modern western political philosophy glossed over the distinction between non-producible nature and reproducible labour and artifacts.

By DAVID RICHARDS

They ducked the issue of access to land.

In the manner of economists, they said: "Let us assume", and in this case they assumed that there was always "as good left for his [the non-landowner's] improvement as was already taken up" (Locke).

Amory Lovins begins his chapter, "Markets In Resource Efficiency" with a counterpart to this assumption: "Most economists view the economic process as ... an endless, circular, disembodied flow of exchange value" — floating free of any moorings in the finite earth.

## REFERENCES

1. Sarah Parkin (editor), Heretic Books, London, £9.95.
2. For an update see Hardin's contribution to R.V. Andelson, *Commons Without Tragedy* (1991), London: Shephard Walwyn/Savage, MD: Barnes & Noble.

Land which by virtue of community protection or relative inaccessibility has remained common property has not escaped the consequences of the capitalist paradigm. It has been either over-used (Garrett Hardin's classic "Tragedy of the Commons")<sup>2</sup> or bathed in waste.

Harrison writes: "By failing to exact rents from those who wished to use the common property as a sink for their waste, the cost structure of the industrial revolution was seriously distorted".

This created "a bias in favour of capital-intensive methods, which skewed the system of production against labour" — a point made also in Nick Robins' contribution: "It appears that not only can full environmental pricing drive a wedge between the economy and environmental destruction, ... but also between the economy and unemployment".

During this century, the raw capital of the earth has been subsumed by economists with produced capital in an umbrella category: "capital". Hence, in Lovins' words, "Resources are conventionally valued at only their

costs of extraction ... thefts from the future are not priced".

The distinctive nature of land is forgotten in capitalism as in communism. A century ago Henry George was endeavouring to put the "geo-" back into "economics" through fiscal policy along the lines of the Physiocrats' *impôt unique*, and to rescue free trade from its unwarranted "dismal science" associations.

Harrison continues this venture by adjusting the capitalist blueprint now being offered to post-communist countries. He discusses the practicalities of accurately capturing land rent (to be used for funding socially necessary expenditure and regional equalisation payments) in the context of governments which already own the land.

Essentially this involves making a market that barely exists in the West (in perpetual public leaseholds). Lovins' chapter looks at a similar project — making new markets for energy saved.

In Harrison's view, the core problem of the twentieth century was that Karl Marx, who disdained markets and nature, was honoured by the Left, whereas his arch rival for the baton of reform, Henry George, "who sought recognition for land [and markets] as of primary importance to society", was not.

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courage land hoarding and speculation, and ensure that everyone could enjoy equality of access to economic resources.

This would in itself promote prosperity and create a high-wage economy without the need for more direct forms of intervention such as wage-fixing legislation.

For many years, the taxation of land values was enshrined in Labour Party policy, and if it is serious about tackling low pay and unemployment, it should resurrect this policy forthwith

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deal with the long standing problem of "betterment", the recovery of increases in land value released by planning permission.

Previous attempts to achieve this (the 1947 Town and Country Planning Act, the 1967 Land Commission and the 1975 Community Land Act) were all unsuccessful and repealed on change of government. Because Site Value Rating would be a buoyant source of revenue, it is most improbable that it would be repealed by another government.

If a site value tax were put in

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