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Increasing the minimum wage ignores economic realities

Stephanie Lis (The Spectator 15 April 2013)

In economically uncertain times, we should strive to remove all blockages to employment, not create more. The national minimum wage is one such blockage. Whilst forced pay hikes may privilege those in work, they make it much harder for those outside the labour market to get their feet on the employment ladder.

In times of plenty, the impact of pricing employees out of the labour market were less dramatic, but in harder times, it becomes a considerable barrier to employment. This is a real problem, and today the government raised the rate by 12p an hour to £6.31 for adults.

Employers, especially smaller businesses with fewer resources, will often be unable to pay the minimum wage. The scale of the rise – a 2 per cent increase, more than 50 per cent higher than current average pay growth – will add considerably to business costs and disincentivise companies from hiring additional staff. There are swathes of jobs that need doing, but in the current economic climate many simply cannot justify a wage of £6.31 per hour.

Making it illegal to offer work at a level below this will not just make life difficult for businesses and growth, though. It will, in fact, have the strongest effect on the vulnerable – the old, the young and the poorly educated.

Many of these people will struggle to find work because the minimum wage prices them out of the jobs market. Extended unemployment will see skills deteriorate and their productivity fall further. This vicious circle results in an 'insider/outsider' labour market, entrenching unemployment amongst certain groups.

The regional breakdown of unemployment provides evidence of the negative effects of the minimum wage. If the government finds it too politically unpalatable to scrap the NMW entirely, it could at least look towards regionalised levels. In its current form, it is a blunt instrument, which takes no regard of the wide variation in labour market conditions around the country.

With stagnant growth and productivity, maintaining the current minimum wage structure is a triumph of political aspiration over economic reality. At a time when the government are rightly reforming welfare to ensure that those on low incomes have an incentive to work as opposed to claiming welfare, they are missing one key problem of the labour market. You can only get people off Jobseekers' Allowance if companies are willing to foot the bill.

The real poverty in society lies with those who are not in work at all. This increase in the national minimum wage will do nothing to improve their chances of a job – rather the reverse. While the coalition government insists that growth is a top priority, it is once again embracing a policy which will impede economic growth rather than encourage it.

460 words

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