

Minimum wage or living income?

WORKING POOR: An unconditional basic income would enable more to opt for part-time work



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MOST rich countries now have millions of “working poor” — people whose jobs do not pay enough to keep them above the poverty line, and whose wages, therefore, have to be subsidised by the state. These subsidies take the form of tax credits.

The idea is a very old one. England implemented its “Speenhamland” system — a form of outdoor relief intended to offset rising bread prices — during the Napoleonic Wars.

In 1795, the authorities of Speenhamland, a village in Berkshire, authorised a means-tested sliding scale of wage supplements. The supplements that families received varied with the number of children and the price of bread.

But the scheme was criticised for allowing employers to pay below-subsistence wages, because the taxpayer would make up the difference. In 1834, the Speenhamland system was replaced by the New Poor Law, which confined relief to

workhouses, under conditions sufficiently odious to force people back into the labour market.

Then, in the 20th century, the Speenhamland principle was revived — and by none other than the free-market liberal Milton Friedman. In 1962, Friedman proposed a “negative income tax”, whereby people earning below a certain threshold would receive supplemental income from the government, rather than paying taxes to it.

The idea was to get people off the dole and back to work. It was implemented as the Earned Income Tax Credit in the United States and the Working Families Tax Credit in the United Kingdom.

At the same time, there have been efforts to raise the level of earned income by setting minimum-wage legislation. But the minimum wage has never reached the floor set for a “living income” and has not, therefore, appreciably reduced the bill for wage subsidies.

In 2008, about 5.5 million working families in the UK received tax

credits, including working and child credits, housing benefits, and local tax benefits. Austerity policies have reduced this number to 4.3 million.

Given that there were 11.4 million working households in the UK in 2012, this means that an astonishing 38 per cent did not receive a “living wage”. Or, to put it another way: the market-clearing wage was unable to provide a living income for 38 per cent of working families. These are the “working poor”.

In his July 8 budget announcement, Chancellor of the Exchequer George Osborne proposed to cut £12 billion (RM71.7 billion) from the welfare bill over the next four years as part of his deficit-cutting plan. Of this, £9 billion will come from cutting the tax subsidies for working families.

To offset this cut, Osborne proposed to raise the minimum wage from £6.50 per hour to £9 per hour over the same period. The increase will fall on employers, not the public purse, and so the reduction in credits and benefits is a net gain for Her Majesty’s Treasury.

An analysis by the Institute for Fiscal Studies (IFS) has concluded that while the Treasury will save £12 billion, the gross increase in pay from the higher minimum wage amounts to only £4 billion.

As Paul Johnson, head of the IFS, put it: “There is simply not enough money going into the new minimum wage to anywhere near com-

pensate in cash terms people on tax credits.”

But even if the minimum wage were raised sufficiently to offset the withdrawal of tax credits, transferring more of the cost of labour from taxpayers to employers would be the wrong strategy. The reason is that for many — perhaps most — people, work will be a declining source of income.

After all, one prediction on which we can confidently rely is that automation will make increasingly large inroads into the world of human work. Up to 50 per cent of existing jobs may be at risk in the next 20 years. It is at least an open question whether enough new jobs can be found to replace them, or, indeed, whether it is desirable to continue producing more and more products simply to provide human employment at ever shrinking wages.

As robots increasingly replace human labour, humans will need incomes to replace wages from work. Whereas tax credits point in the direction of replacement incomes, raising the minimum wage points in the opposite direction, by making income more dependent on jobs.

In fact, focusing on the minimum wage would almost certainly speed up the automation process. Previous evidence that minimum-wage legislation does not reduce the demand for labour might not stand up against the rapidly falling

cost of automating the production of goods and services.

In short, if Osborne is serious about his pledge to provide a “living income” for all, he should be moving toward the idea of a “basic” or “citizen’s” income, independent of the job market. A simple way forward would be to provide all citizens an unconditional tax credit, which could be built up gradually as the rewards from work fall.

Both free-market and socialist thinkers have long advocated implementing a basic-income scheme. But the idea has always fallen foul of two objections: societies are too poor to afford it, and it would be a disincentive to work.

The first objection is surely no longer true of the advanced economies, while the second is irrelevant, given that the goal is not to strengthen the incentive to work, but to enable people to live without work.

An unconditional basic income would make part-time work a possibility for many who now have to work full-time at non-living wages. And all workers would begin to gain the freedom to make the same choices regarding how much to work, and under what conditions, that owners of substantial capital now have.

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