

Can Politics Improve Wages?

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The Labourites now advocate a new law on minimum wages. Whenever they are asked why, the various spokesmen (from Gordon Brown, Tony Blair and Margaret Beckett to the shadow chancellor John Smith) all repeat, like sheep, that other European nations have them. The newcomer, Huw Edwards, has got in on the act and advocated it on *The Week in Westminster* (15 June 1991). I attempted to educate him but got back in reply:

"I cannot agree with you about the minimum wage. I will be campaigning for a statutory minimum wage to reduce poverty, increase effective demand and reduce inequalities between women and men" (24 June 1991)

Well, I had a field day with that reply. In reverse order, the inequalities between men and women have always been more nominal than real, though women rarely admit as much, and no doubt many of them are corrupt enough to welcome female privileges that outlaw any normal social discrimination that they may face. If we say that the House of Commons should be half female, then that is not quite fair, because of the likelihood that more men will apply, and the same counts for many jobs. Any attempts to force people to have other than what they would choose in free trade are to that extent coercive and illiberal.

That the state can actually increase the demand is a Keynesian myth. It can mess up demand, and thus supply too, by inflation. But that ironically, lowers effective demand by destroying the effect of inflation that Keynes could not see.

But inflation will surely be needed to undo the damage of a minimum wage for it will put any worker not worth the £4 an hour out of work until inflation makes the £4 worth less. Firms are not going to be keen to pay men, or women more than they feel they are worth, and so some unemployment will have

to result, until inflation cancels out the immediate effects. So this Labourite scheme looks set to put those in low paid jobs out of work. If they do not inflate, then those put out of work by this measure could be out of work permanently.

One effect of unemployment is to depress the marginal wage. Full employment has the opposite effect and gives rise to a shortage of labour that bids up the lowest wages. Increased numbers of unemployed will tend to hold down those above the £4 to £4 only as well as preventing all the earlier lower paid workers from ever getting a job again, given that the Labourites do stop inflation (which no government has fully done this century). Perhaps those at £4 too will eventually be outlawed and so made unemployed also, leaving those at £5 or £6 an hour to become the new basic minimum wagers until they too are thought to be worth banning. Soon we would be all out of work if this were to be pursued.

While this is going on, those in work will have to pay for those put out of work by Labourites. And there will be a lower level of output, for those put out of work are now no longer producing. So the value of the minimum wage has to be less in terms of what there is that it can buy. All this, Huw Edwards cannot agree with. But we cannot have more than we produce, and if we put people out of work then we are all bound to have that much less that they would have produced, had we left them alone. We will all be poorer.

How lower wages can buy more

The real wage-booster is capital accumulation, Ludwig von Mises often wrote. It tends to make our work more effective and thus more productive, thereby boosting real wages. Output is then increased and the lower wages can buy more. As capital accumulation grows, the lower wages become more and more valuable.

If we have unemployment, as we have in the UK today, we actually need to go to low levels of wages in order to clear the labour market. Once we get full employment then we will get a shortage of labour. That set-up

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allows all wage rates to be more viable than when unemployment depresses them. An educated workforce, with the knowledge of elementary economics that Cobden attempted to teach to them, would always use low wage rates to maintain full employment. But, sadly, so far the workers have not wanted to think about the market. There is nothing wrong with the market system, but it needs to be understood by people if it is to work as smoothly as it could. A party that genuinely considered the interests of the workers would not be pretending that state magic could work wonders, but would encourage them to think for themselves, and to master economics up to about O level, so that they had the knowledge to see what the effects of measures like minimum wage laws really are. In this respect, the Labour Party was a far better party, and far more knowledgeable, from 1904 up to 1924 than it has been since. But, so far, no party has ever been a proper liberal party – and certainly not the Liberal Party. Politics cannot help us to get better wages. It can only bring forth foolish schemes backed by naïve men, such as Huw Edwards, that will all, sadly, have the opposite effect than the one hoped for. Politics can do no good. The folly of minimum wage laws is, alas, typical politics. The less politics the better, for it is anti-social and counterproductive. Politics can only mess you up.

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