**Assess the importance of the minimum wage in reducing poverty and inequality (25 marks)**

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| **INTRODUCTION** | * Poverty refers to relative poverty in the UK where households are unable to meet needs relative to others in society (less than 60% of median income). Approximately 1 in 5 households are said to be in poverty in the UK
* Inequality refers to disparities between high and low income earners within the UK. Clearly higher levels of poverty and too much inequality are undesirable for an economy as it can lead to instability. Income inequality has increased since 1979 in the UK although more recently it’s increase has leveled out (perhaps due to the introduction of the minimum wage?
* The minimum wage was introduced in 1998 by the New Labour Government to protect workers whose power to negotiate for higher wages had been reduced by the previous Conservative administration. George Osborne plans to replace the NMW with the National Living Wage which would increase the current NMW of £6.70 to £7.20 in April 2016.
* The minimum wage has been important in reducing poverty and inequality through higher wages and greater employment opportunities. However regional variations mean it is a blunt instrument and it does not benefit the most destitute in society who are not working. Therefore it’s importance is a hotly debated topic.
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| **MAIN BODY** |  | **Economic Theory/Explanation** | **Examples** |
| The minimum wage can reduce poverty and inequality with higher guaranteed wages | **Argument Support (As)** | Providing higher wages – counters exploitation (and possible discrimination of some groups) by employees. Also, protects against monopsony employers ***(TASK: draw a monopsony diagram and explain how wages will increase).*** |  | Especially needed in light of the reduction in trade union power in the 1980’s to protect workers. Monospony power is still prevalent with public sector workers such as teachers and nurses who face lower pay compared to the private sector.Monopsony power for more regional areas is perhaps a problem? E.g. steel workers in Redcar, North East England, only had one employer. |
| **Argument Evaluate (Ae)** | Only affects those in full time work. Those who maybe vulnerable, unemployed or ‘forced’ part-time do not benefit. Also, regional variations – cost of living in London much higher than other areas. Monopsony employers in the private sector are not very common with greater mobility of labour? ***Explain why this might be so?*** | ***What is the cost of living in London compared to the rest of the UK? Is monopsony employers an issue in a place like London?*** |
| The minimum wage reduces unemployment which reduces poverty and inequality | **Argument Support (As)** | Reduces voluntary unemployment – incentive for those out of work to enter the workforce = less money on benefits (reduce fiscal burden on the Government). ***Draw a labour market diagram to show how an increase in wages might increase labour supply.*** |  | ***What has happened to unemployment rates in the UK which might back up this claim?*** |
| **Argument Evaluate (Ae)** | Creates greater general unemployment – if wages are too high, it could create unemployment where there is excess supply of labour ***(TASK: Draw a labour market diagram to demonstrate this)*** |  | ***What has happened to unemployment in the UK which might back up this claim?*** |
| The minimum wage has wider impacts on the economy which means a stronger economy and therefore reductions in poverty and inequality | **Argument Support (As)** | Wider impacts on the economy through higher productivity: Efficiency Wage Argument – higher productivity due to higher wages means stronger economy. Also, firms more likely to invest in workers through training etc. Positive externality of greater employment if stronger economy. Also greater tax revenues to spend on monetary benefits and benefits in kind. | ***What has happened to productivity in the UK which might back up this claim?*** |
| **Argument Evaluate (Ae)** | Wider impacts on the economy: Cost push inflation might result ***(Macro: SRAS curve to the left)?***  |  | ***What has happened to productivity in the UK to counter the point above?******Has there been inflation in the UK over the past 15 years?*** |
| **CONCLUSION** |  |