

Minimum Wage: Maximum Impact

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The National Minimum Wage

- First introduced in April 1999
- Initially controversial – dire warnings of massive job losses
- Now widespread consensus that it should continue
- Should be entering rebellious teenage years but is it prematurely middle-aged?

Why has the NMW been a success?

- Very popular among the public
- Has been an economic success
 - No evidence it has lost jobs
 - Has raised incomes for the lowest-paid
- Excellent job done by Low Pay Commission
 - Evidence-based policy making
 - Little room for political posturing

So what's the problem?

- Change to NMW now is only incremental
 - how much should increase be this year?
- The impact of these changes is inevitably small, hard to distinguish from other factors influencing the labour market
- So we do not learn much extra about the NMW from these changes e.g. best evidence on employment effects comes from 'big bang' of introduction

The Aim of this Report

- Are there more radical reforms of the minimum wage that would be beneficial?
- Important because of wider concern about stagnation of living standards
- Plug for other work of Resolution Foundation

Figure 1: Historic rates of the National Minimum Wage *£ per hour*

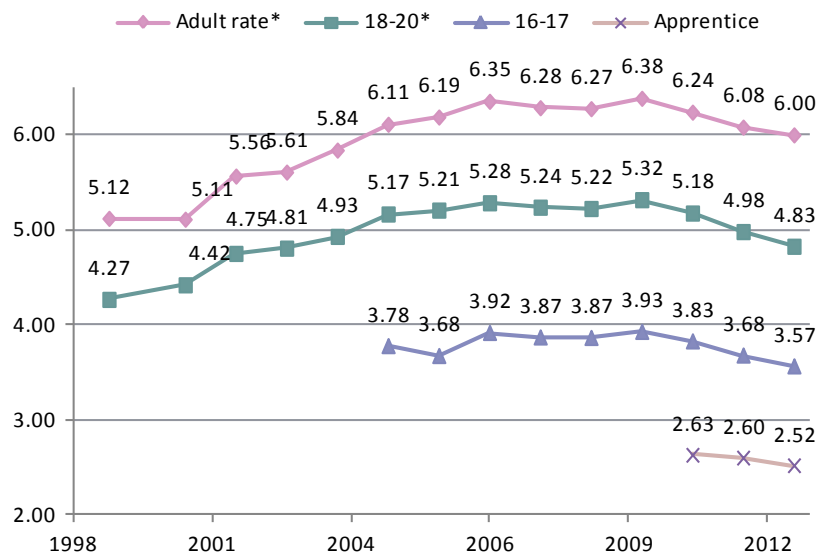
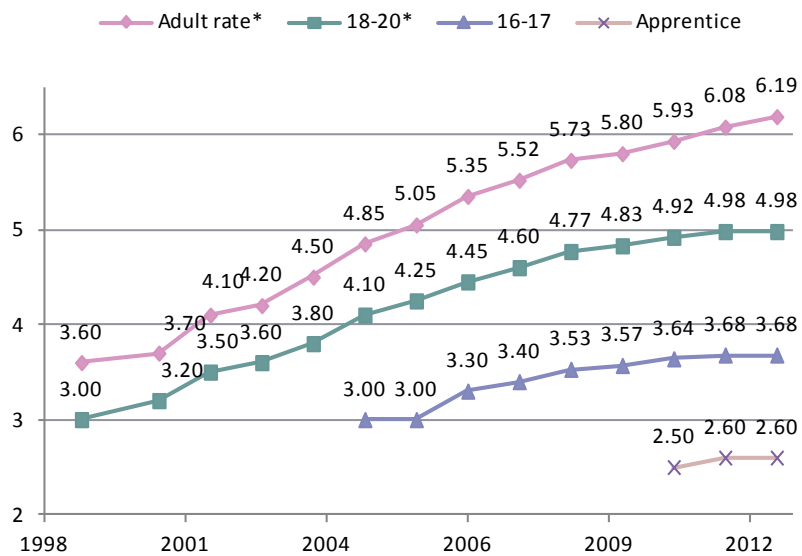


Figure 2: The bite of the adult minimum wage
Percentage of median hourly earnings

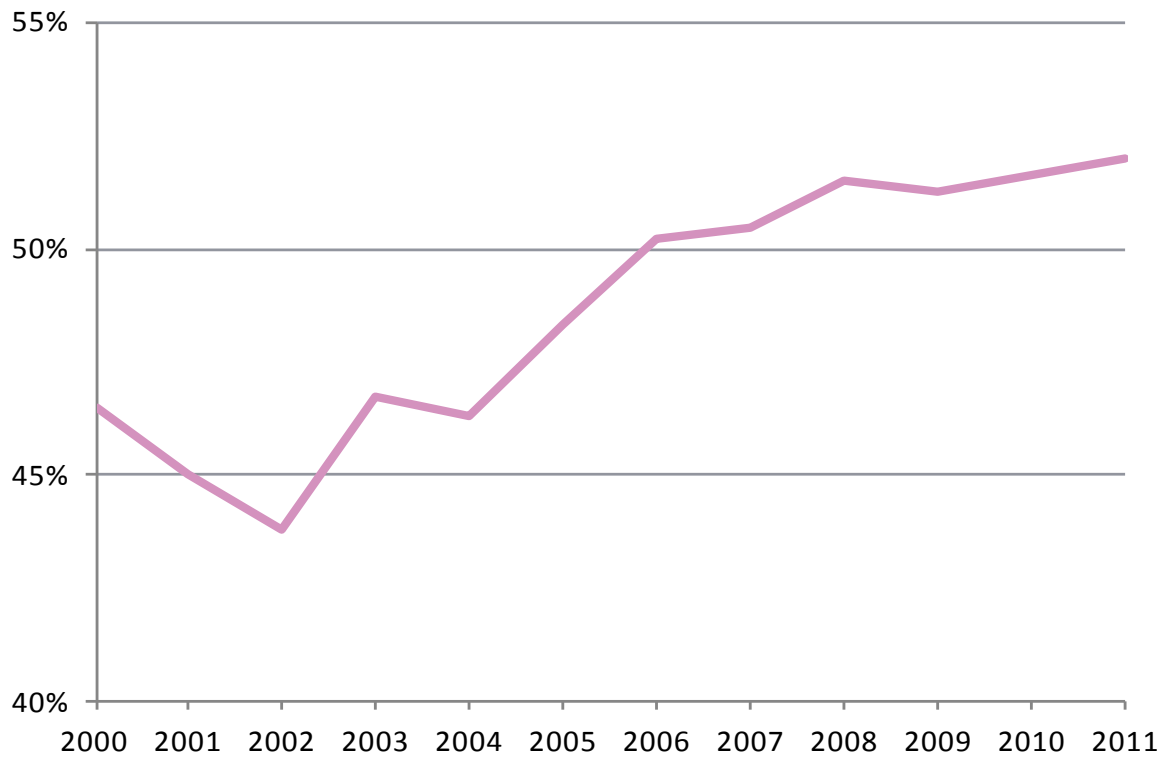
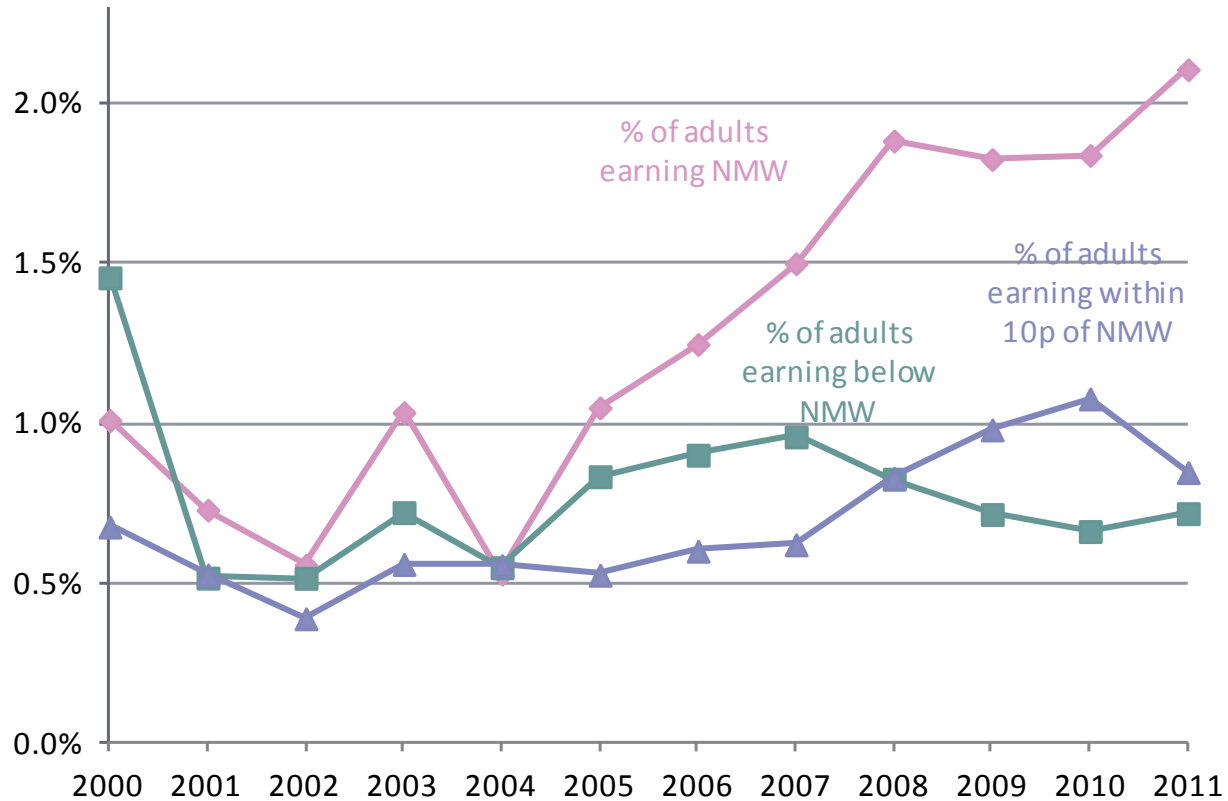


Figure 3: The proportion of adults paid below, at or close to the minimum wage



Evidence on Impact to Date

- No evidence it has caused job losses
- More evidence that it has reduced wage inequality at bottom end
 - Aggregate evidence
 - Regional evidence
 - Effect may reach to 20th percentile
 - Implies there are spillovers

Figure 6: Key measures of wage inequality in Britain

Hourly wage ratios, 1975-2010

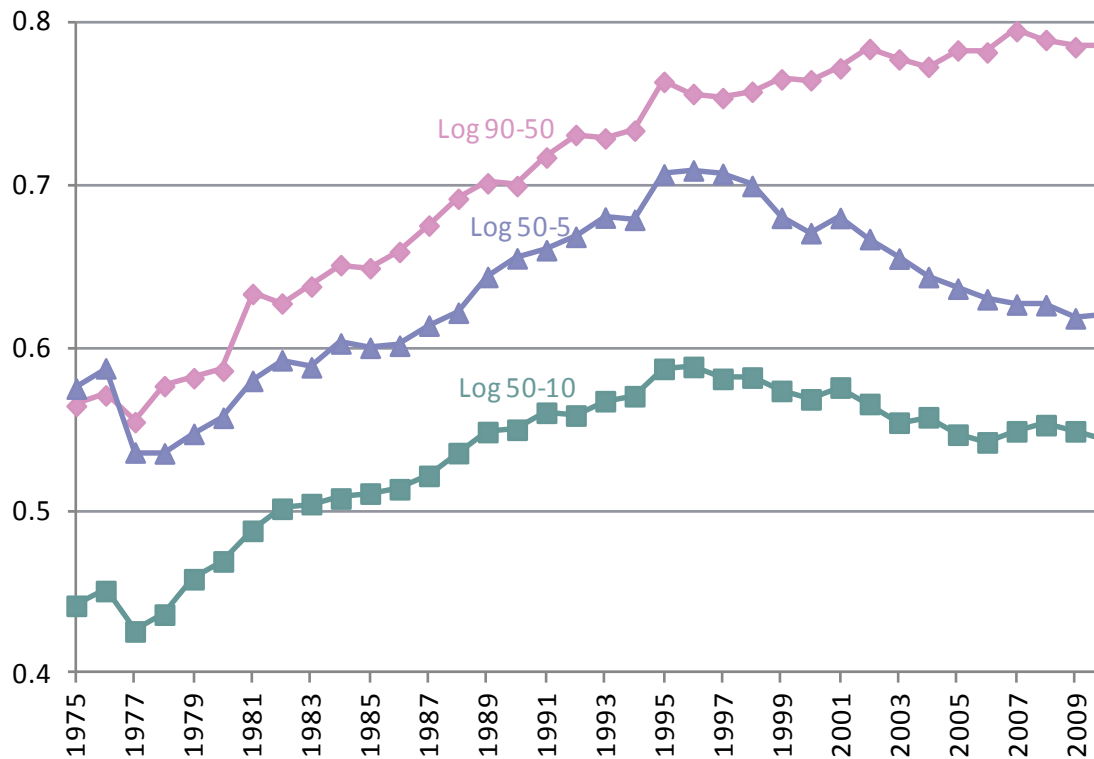
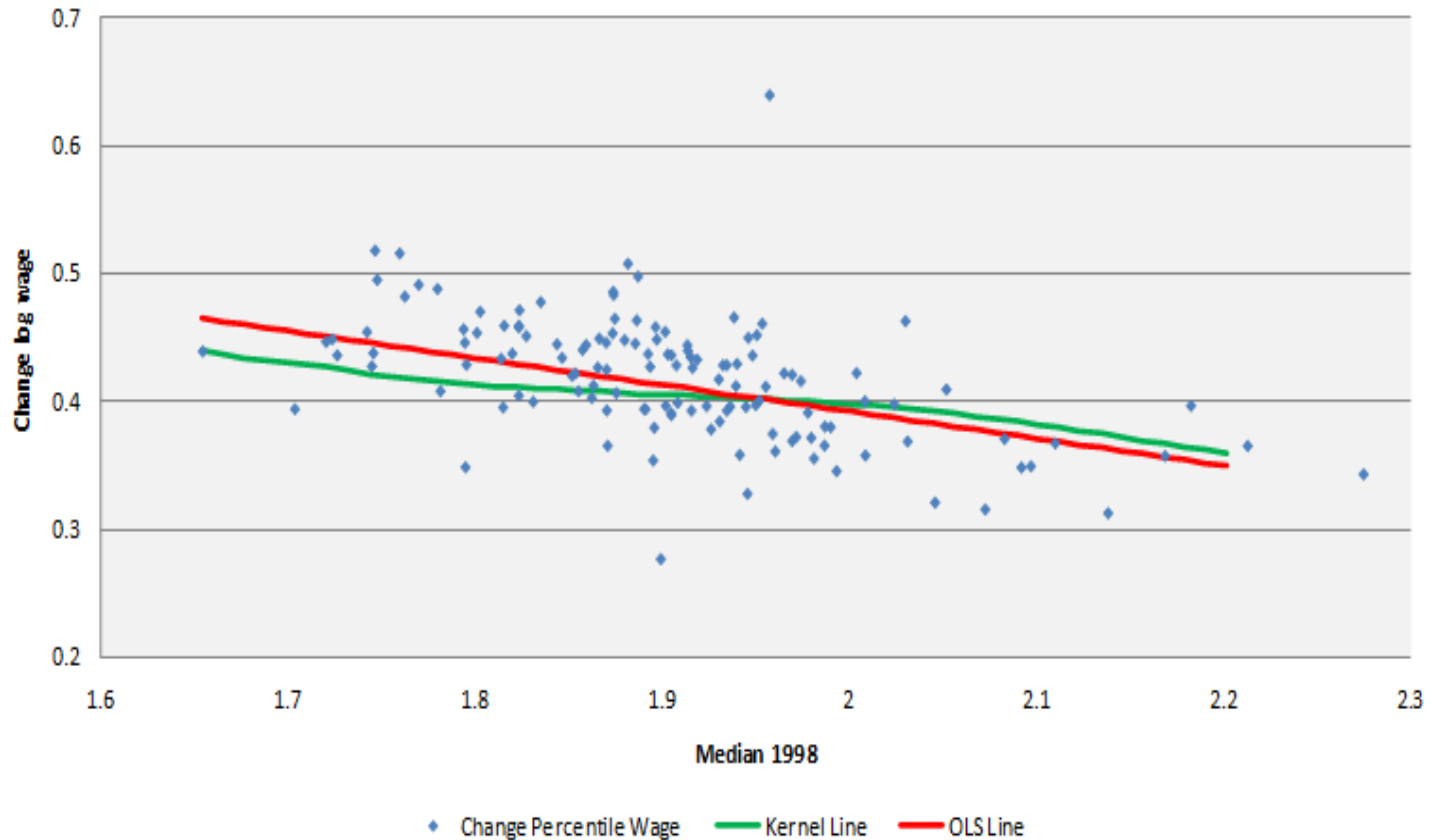


Figure 7: Impact of the minimum wage by region

Change in the log 10th percentile wage 1999-2010 against 1998 median wage in region



Options for Radical Change

- Big general hike in NMW
 - Labour market fragile so not the time for this
 - Few other countries from which to learn from this leap into the unknown
- More variation than currently – better targeting

Options for More Variation

- Premium Minimum Wage for Older Workers (30+?)
 - Labour market outcomes for 22yr olds and 30yr olds quite different
- More Regional Variation
 - Probably just higher minimum wage for London
- The Living Wage

Figure 12: The Variation in the Incidence of the NMW by Age
Percentage of workers in each category

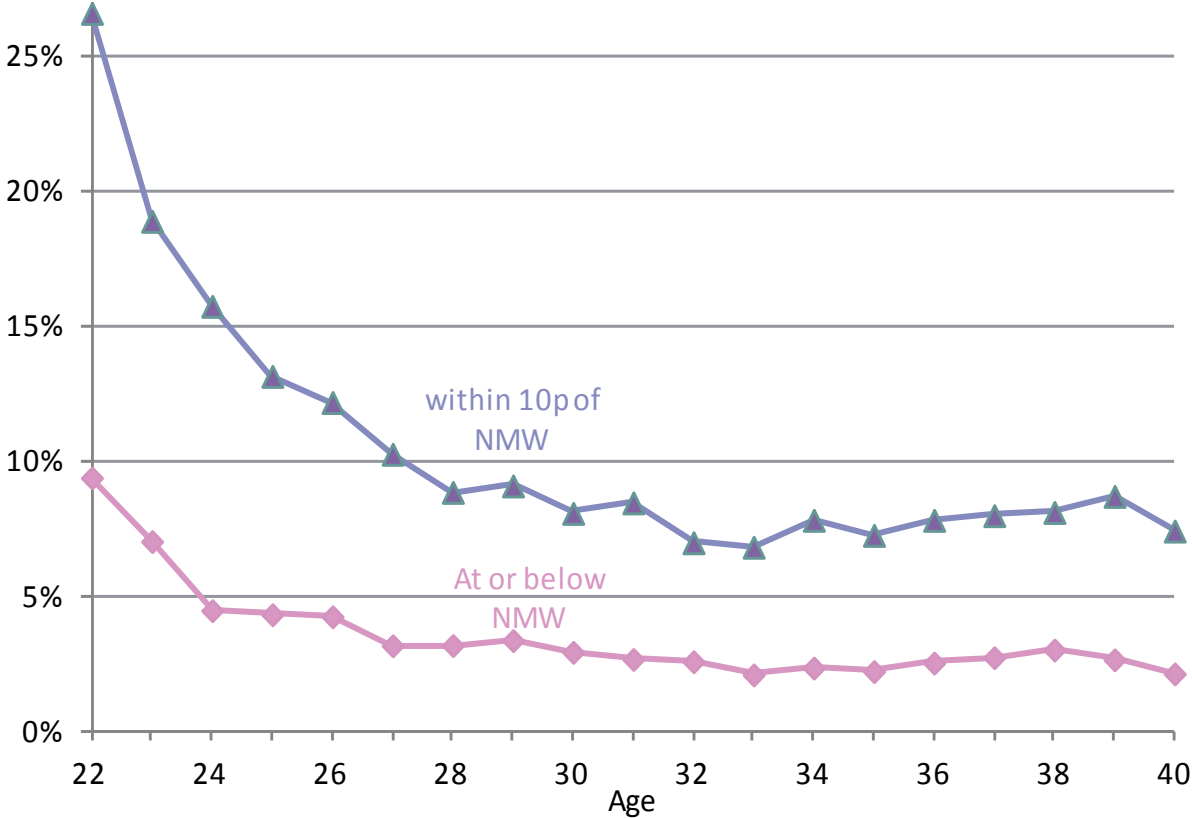
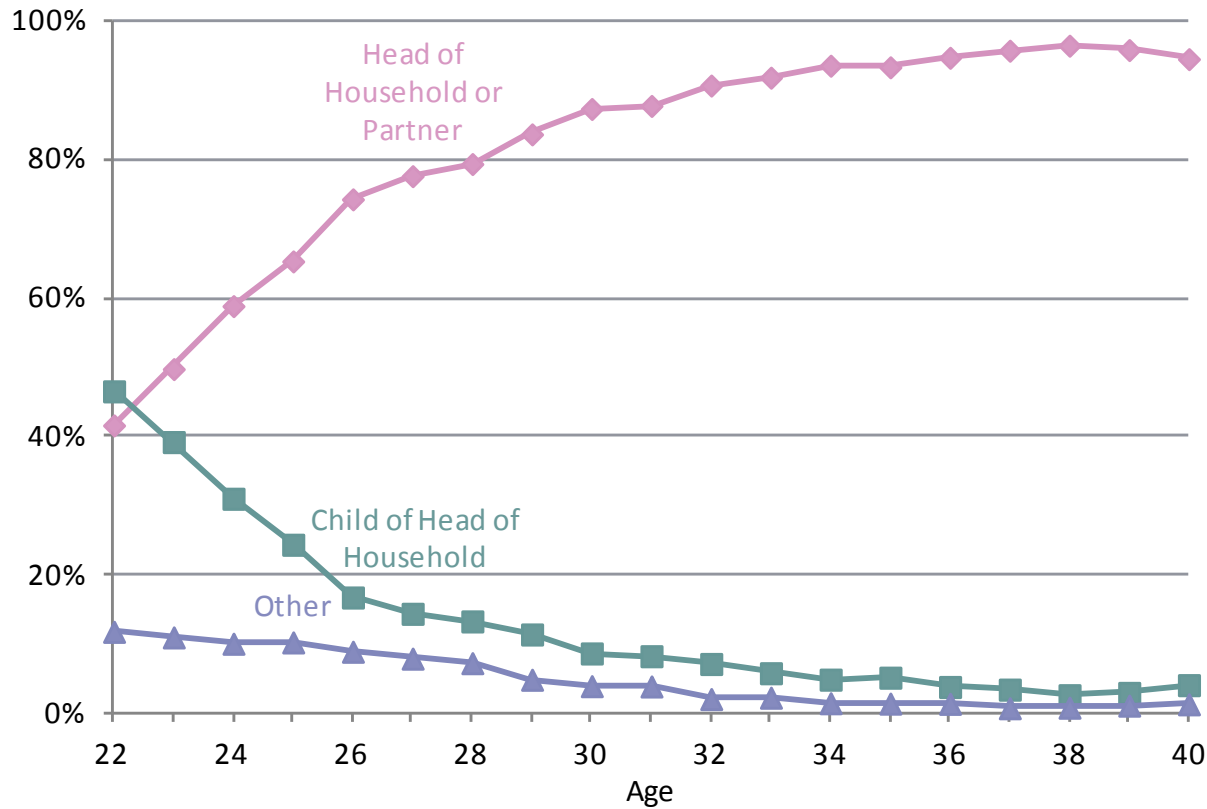


Figure 13: The Household Status of Minimum Wage Workers by Age

Percentage of households in each category



Conclusion on Higher NMW for Older Workers

- Is probably more tightly linked to poor households
- And poor households with dependent children
- Avoids current concern about extremely fragile state of youth labour market
- But, wages for those aged 30+ not much higher than those ages 22-29 e.g. if wanted a NMW to affect 5% of 30+ would have £6.05 (instead of £5.80)

A Higher NMW for London

- Wage differentials between London and rest of UK much higher than age differentials
- A NMW for London to affect same % of workers would be about 7% higher
- But would introduce 'border' issues
- US manages with quite large minimum wage differentials across states

The Living Wage

- “that work should bring dignity and should pay enough to provide families the essentials of life”
- Has been used as the basis for successful campaigns to get employers to voluntarily pay it, especially in London

The Living Wage vs the NMW

- Differs in the level
 - Proposed living wage too high to be seriously considered as NMW
- Method of computation
 - Based on income needed to attain a target standard of living translated to an hourly wage
 - But cannot achieve its aims without welfare state
- Voluntarism
 - Some employers can afford to pay more than NMW
 - Perhaps more can be done to encouraged them to do so e.g. accreditation

Conclusion

- NMW an undoubted success but could more be achieved?
- Not the time for a general big increase in the NMW
- But should give more attention to:
 - Higher minimum wage for older workers
 - Higher minimum wage in London
 - Encouraging employers who can afford it to pay higher wages