Minimum Wage: Maximum Impact

Alan Manning
London School of Economics
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 10\textsuperscript{th} 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

- At or below NMW
- Within 10p of NMW
- At or below NMW
Figure 13: The Household Status of Minimum Wage Workers by Age

Percentage of households in each category

[Graph showing the percentage of households in each category (Head of Household or Partner, Child of Head of Household, Other) by age from 22 to 40.]
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