

From the Minimum Wage to the Living Wage

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ENS, Paris

- Statutory national minimum wage (NMW) is a recent innovation in the UK
- Rates set by government following advice from the independent Low Pay Commission
 - Evidence based
- Primary concern has always been jobs impact
- Cautious up-ratings until recently

- Substantial wage gains for those on NMW
 - Among the few to see real wage gains since recession
- Reduction in wage inequality at the bottom of the distribution
 - Main beneficiaries: women
- Minimal employment effects
 - Confined to certain sectors (social care)
- Increases in x-efficiency (TFP)

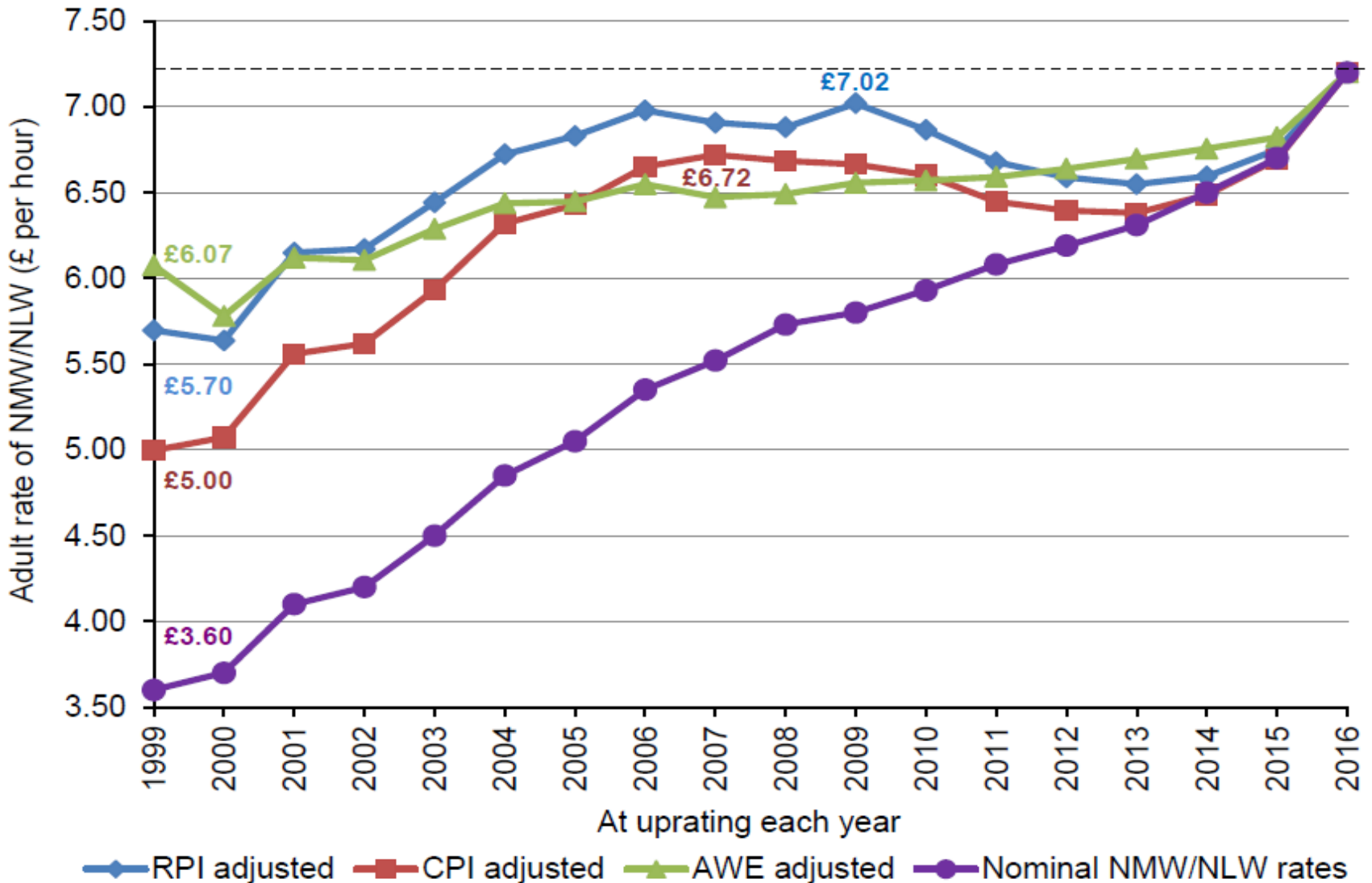
- Industry-specific Wages Councils 1909
 - Winston Churchill (Board of Trade)
 - A range of statutory requirements (holiday pay etc)
- Efforts to abolish in the 1980s
 - 26 remained covering 2.5 million workers
 - Heavily contested, especially by small employers (Bryson 1989)
- Eventually abolished 1993
 - No statutory extension of collective bargaining
 - Only Agricultural Wages Board remained
- National Minimum Wage Act 1998
 - New Labour after big tussle within union movement and the Labour Party

- Rates set by Secretary of State on advice of independent Low Pay Commission
 - LPC set up under statute (actually began in 1997)
 - 9 commissioners including the chair (employers, unions, academics)
 - 2 labour economists (Richard Dickens and Sarah Brown)
- LPC reports in October with recommendations for April's minimum wages
- Government tends to accept recommendations
- In 2015 Chancellor George Osborne introduced "National Living Wage" for workers aged 25+
 - <https://www.theguardian.com/society/reality-check/2015/jul/08/george-osborne-budget-national-living-wage>

- LPC are responsible for:
 - carrying out extensive research and consultation, and commissioning research projects
 - analysing relevant data and actively encouraging the Office of National Statistics to establish better estimates of the incidence of low pay
 - carrying out surveys of firms in low-paying sectors
 - consulting with employers, workers and their representatives and taking written and oral evidence from a wide range of organisations
 - making fact-finding visits throughout the UK to meet employers, employees and representative organisations

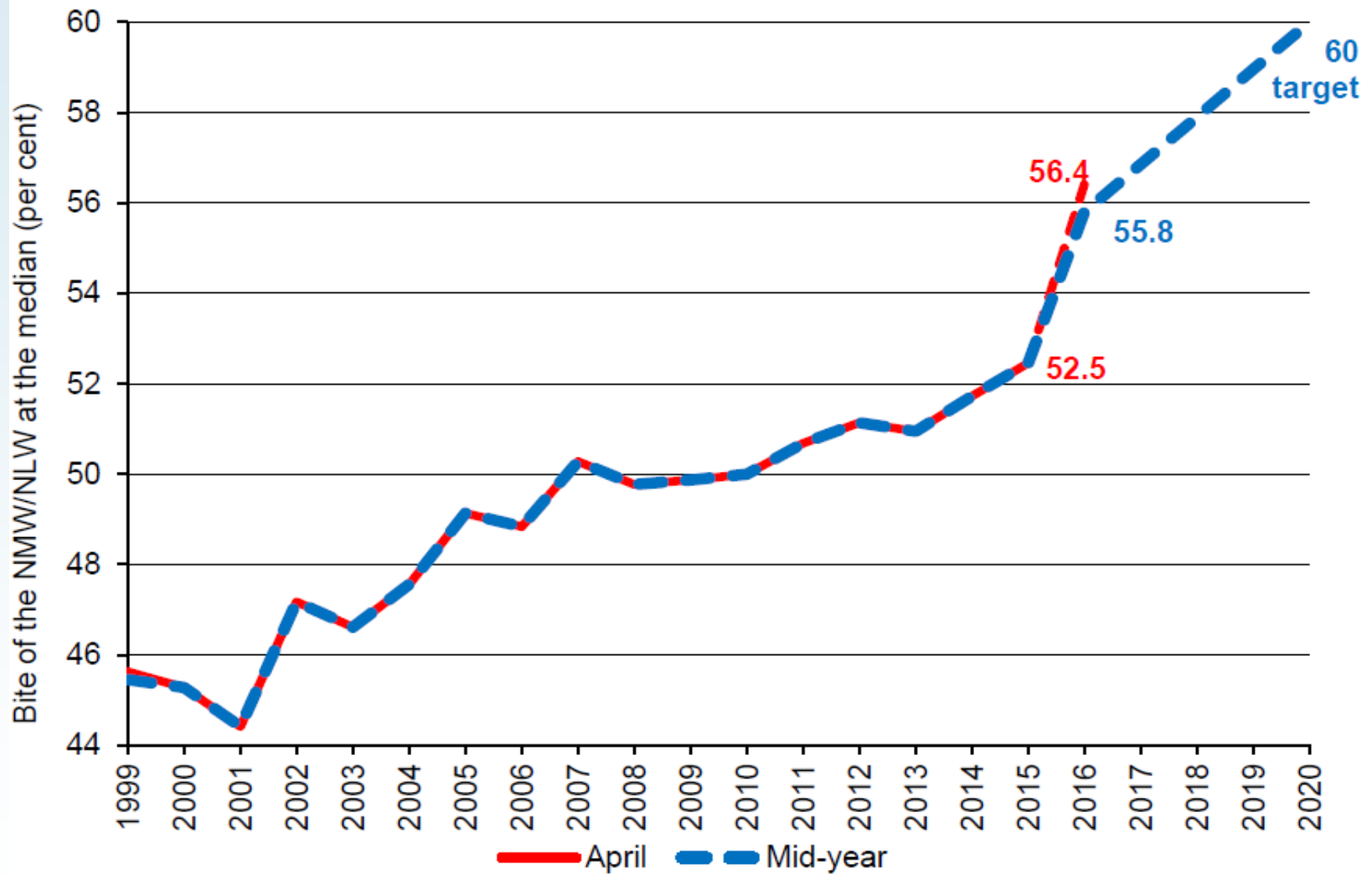
- Concern had been large job loss (1 million+ according to Treasury model)
 - Though wages councils had not led to job loss (Machin and Manning, 1994; Dickens et al, 1998, 1999)
- So first rates in 1999 set low relative to median earnings
 - £3.60 for aged 22+ and lower rate for those aged 18-21
- Even so 1 million workers immediately got a pay rise of 10-15%

Figure 2.3: Real and relative value of the NMW/NLW, UK, 1999-2016



The bite of the minimum wage over time

Figure 2.4: Bite of the NMW/NLW for workers aged 25 and over, UK, 1999-2020



- 25+ studies later....
- 2 million covered (one-in-ten workers)
- Reduced wage inequality at bottom end
- Reduced gender wage gap
- “The minimum wage has not cost jobs either in the aggregate economy or in the low wage industries and occupations”
- Why?
 - Wages from excess profits
 - Small adjustments at intensive margin (hours)
 - Compliance issues
- Manning (2014) emphasised monopsony, labour adjustments (reduced turnover) and effort

- Riley and Bondibene (2015) assess impact on firms' labour costs, productivity, profits and TFP relative to control firms unaffected by NMW
 - for 3 periods (introduction, mid-2000s, after 2007)
- NMW raises labour costs in all 3 periods
- NMW associated with increases in gross value added, sales per employee and TFP
 - Consistent with efficiency wage and training responses
- No impact on profits or closure rates in general
 - Some evidence of negative profit effects among SMEs
 - Some evidence of reduced employment in care homes but not closures (Machin and Wilson, 2004; Machin et al 2003)

2.135 We have previously concluded from the research over the last 15 years that the increases in the minimum wage in the UK have not had significant effects on employment or hours, at an aggregate level. That view was based on our judgement of the research findings. An alternative approach to summarising the evidence was carried out by RAND Europe (2016) which conducted a meta-analysis (a study of studies) of the existing UK literature on the effect of the NMW on employment, hours and job retention rates. It found no evidence of a publication bias in the UK literature, and, in line with our previous assessments of the impact of the NMW, found no evidence of a genuine adverse employment effect when looking at the impact of minimum wages on overall employment, hours or employment retention rates. It did, however, find that part-time employees were more adversely affected by increases in the NMW than full-time employees, especially when looking at employment retention rates. These effects were stronger at the point of introduction, during the phase of large NMW increases prior to the recession, as well as through the period after the recession. However, no such effects were found during the recession, when the NMW was falling in real terms. In contrast, it provided evidence that the employment retention of young employees was more adversely affected during the recession, although there was no evidence of adverse employment or hours effects on young workers outside this period. Looking at hours, the study actually found some weak evidence of a positive effect for part-time employees, in contrast with previous research, which identified stronger effects on hours than employment.



National Minimum Wage	National Living Wage
Age 21+, 1 October 2015 to 31 March 2016	Age 25+ from 1 April 2016
Ages 21–24 from 1 April 2016	
£6.70	£7.20

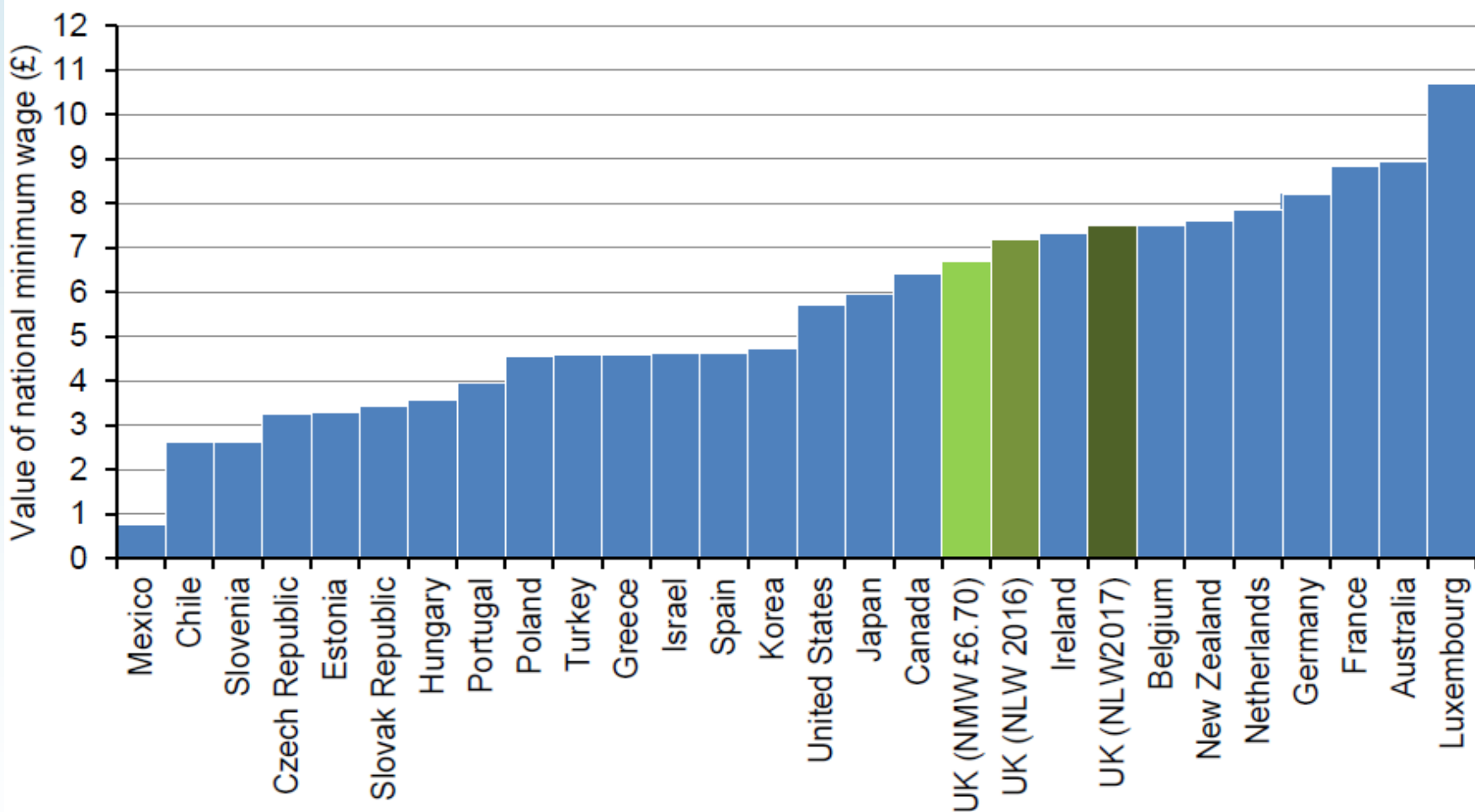
Introduced by government “to move away from a low wage, high tax, high welfare society and encourage of model of higher pay and higher productivity” (Department of Business, Innovation and Skills, 2016)

Government objective “to have a minimum wage of over £9 by 2020” (BEIS, 2016)



Bite = % of median earnings

Figure A4.3: Purchasing power parity of minimum wages, by country, July 2016



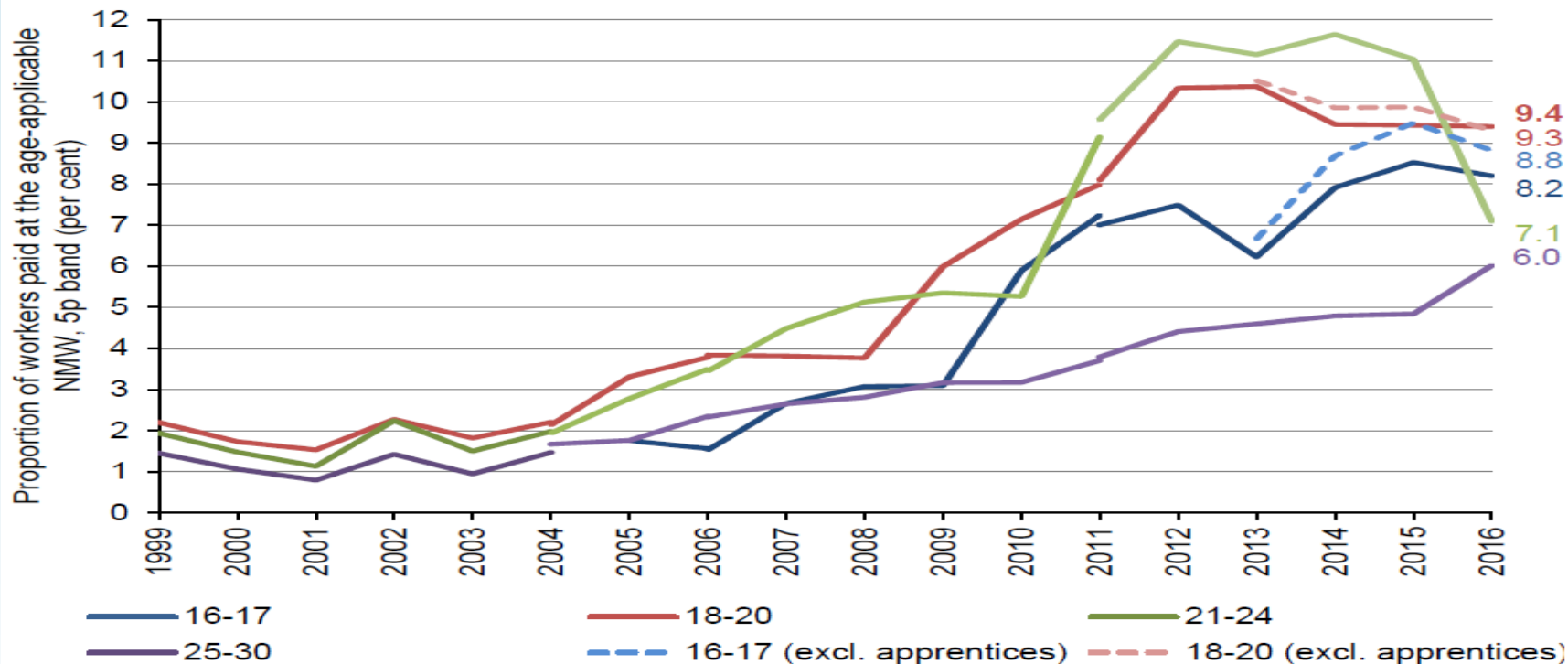
Source: LPC estimates based on OECD data.

Notes:

- a. Data are converted to GB sterling.
- b. PPP estimates calculated using OECD July comparison ratios.

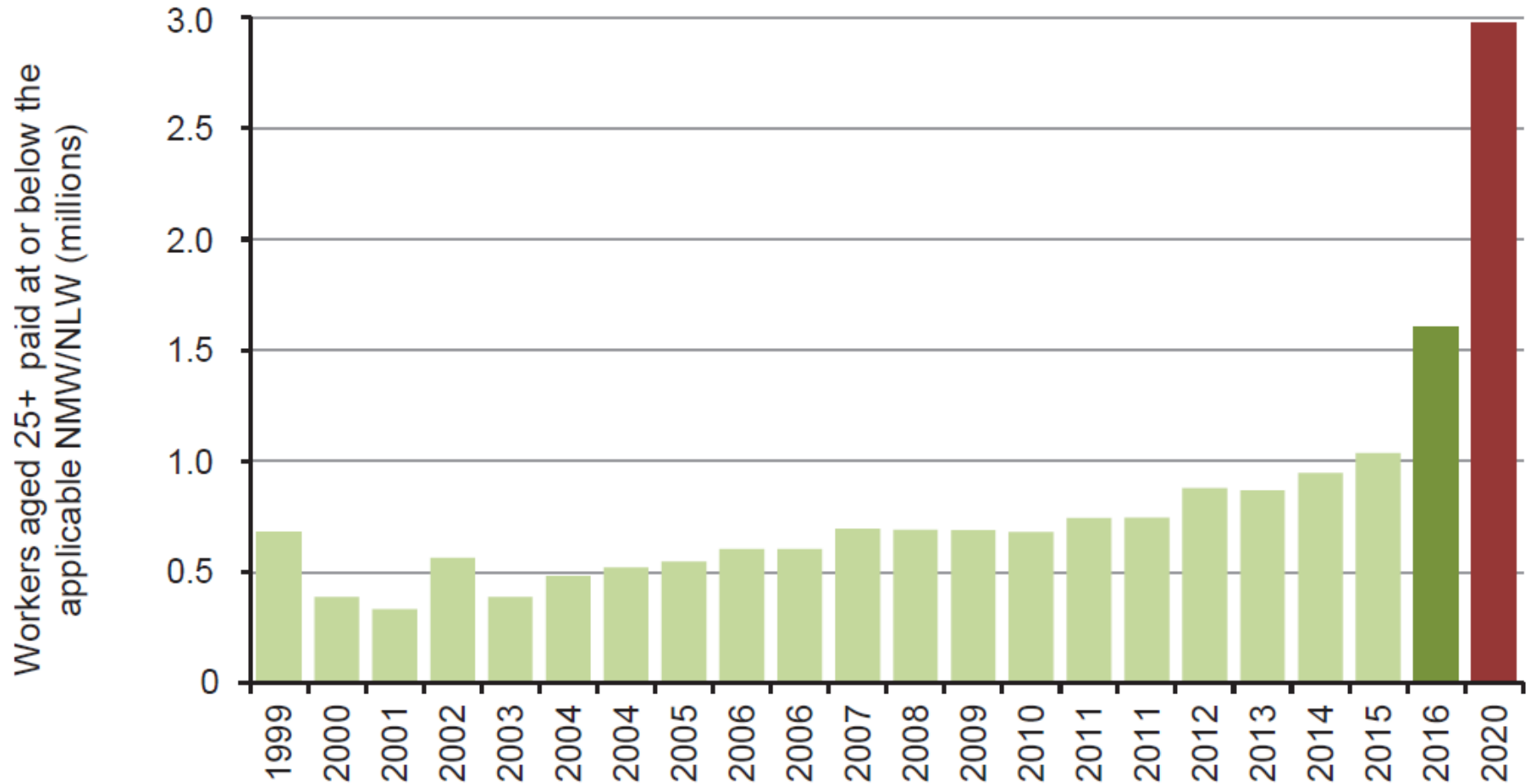
% workers covered by NMW, by age

Figure 3.9: Percentage of workers paid at their applicable minimum wage, by age, UK, 1999-2016



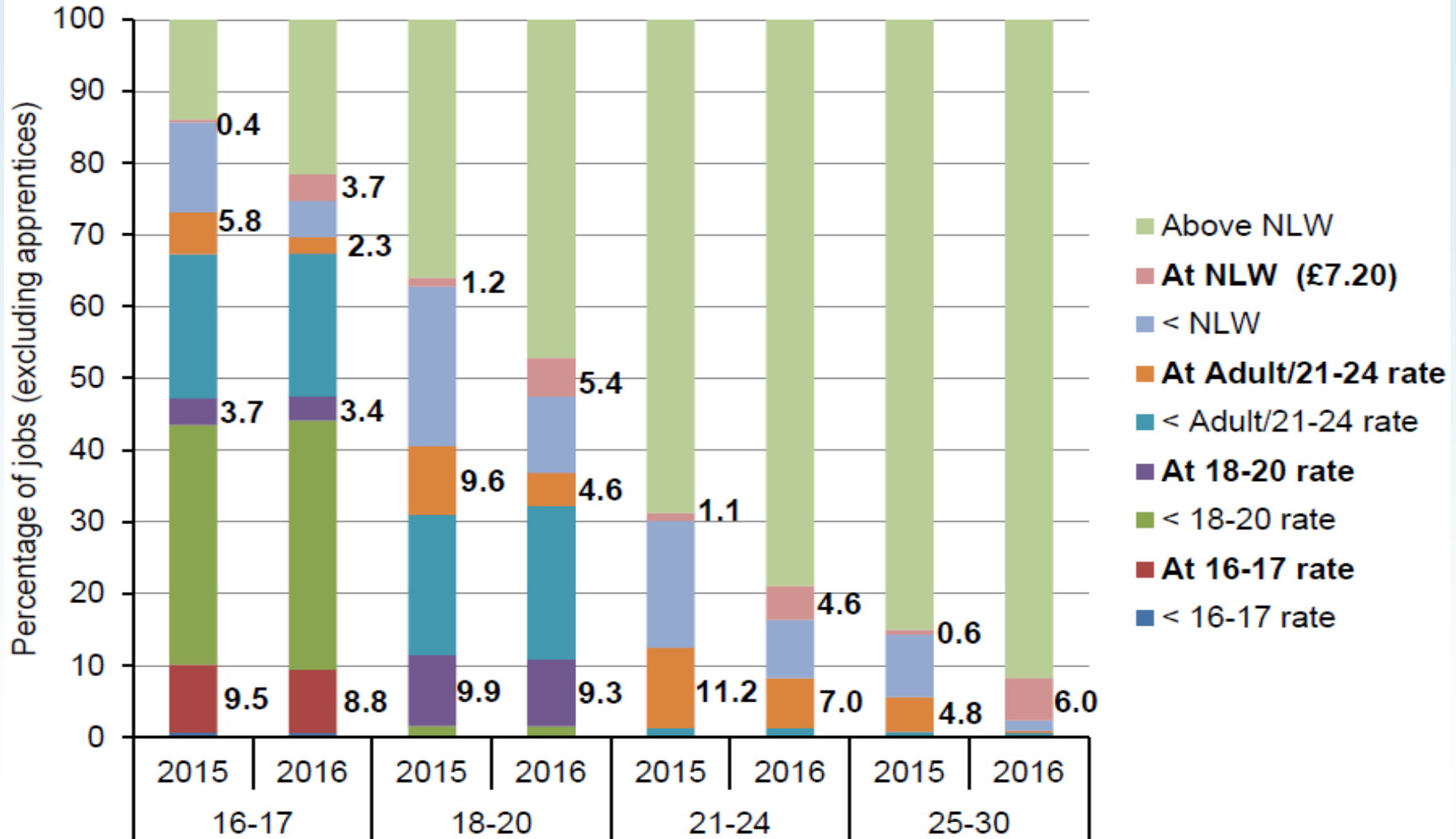
Source: LPC estimates using ASHE: without supplementary information, April 1999-2003; with supplementary information, April 2004-05; 2007 methodology, April 2006-10; and 2010 Methodology, April 2011-16, low pay weights, including those not on adult rates of pay, UK.

- 1.9m (7.1%) of *all* workers covered by NMW/NLW in April 2016
- 1.6m (6.7%) *25+ year olds* covered by NLW in April 2016
- 1m (4.3%) *25+ year olds* had been covered by NMW in April 2015



% jobs paid at, between, above minimum wage, by age UCL

Figure 3.10: Percentage of jobs paid at, between and above minimum wage rates, by age, UK, 2015-2016



Source: LPC estimates using ASHE, April 2015-16, low pay weights, including those not on adult rates of pay, excluding apprentices, UK.

- 31 October 2016 Letter from Chair of LPC to SoS:
- “For the NLW we are asked to make recommendations on the pace of increase towards a target: an ‘ambition...that it should continue to increase to reach 60 per cent of median earnings by 2020, subject to sustained economic growth’.”
- “For the other rates we are asked to ‘help as many low-paid workers as possible without damaging their employment prospects’. The key challenge in fulfilling our remit has been risk and uncertainty in relation to the economic outlook following the decision to leave the EU.”
- “The NLW means substantial wage gains for many workers by 2020 but that it will be demanding for businesses, particularly those in certain industries and areas and for small businesses. It is set to give the UK one of the highest minimum wages in the developed world in relative terms”.

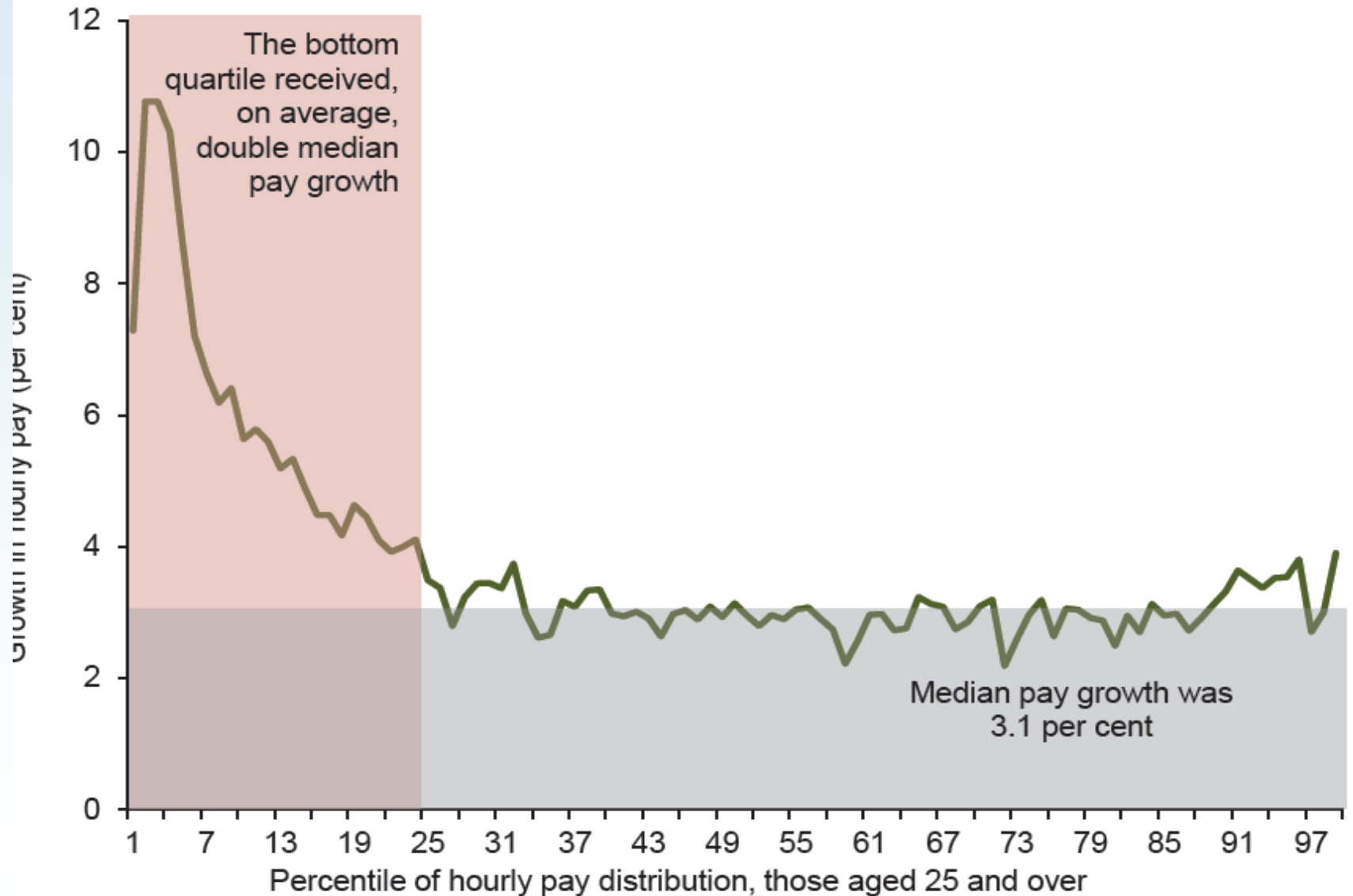
- NLW of £7.50 in 2017 was a 4.2% increase on the £7.20 2016 introductory rate. But below the £7.64 they had anticipated setting in the 2016 LPC annual report
- Based on forecasts LPC estimate that 60 per cent of median earnings in 2020 will equate in cash terms to an NLW of £8.61, within an interquartile range of £8.50 to £8.73.
 - This is down from £9.16 in our Spring 2016 Report and £9.35 when the policy was announced in July 2015

workers and apprentices. Where the LPC has traditionally made recommendations on the level of the minimum wage with a view to avoiding any reduction in jobs or hours, the Government introduced the NLW with a greater tolerance of some risk to employment. Analysis by the Office for Budget Responsibility (OBR, 2015b) in July 2015 estimated that as a consequence of the NLW's introduction, there would be 20,000-110,000 fewer jobs by 2020 than there otherwise would have been, albeit set against wider employment growth of 1.1 million jobs in the period 2015-2021.

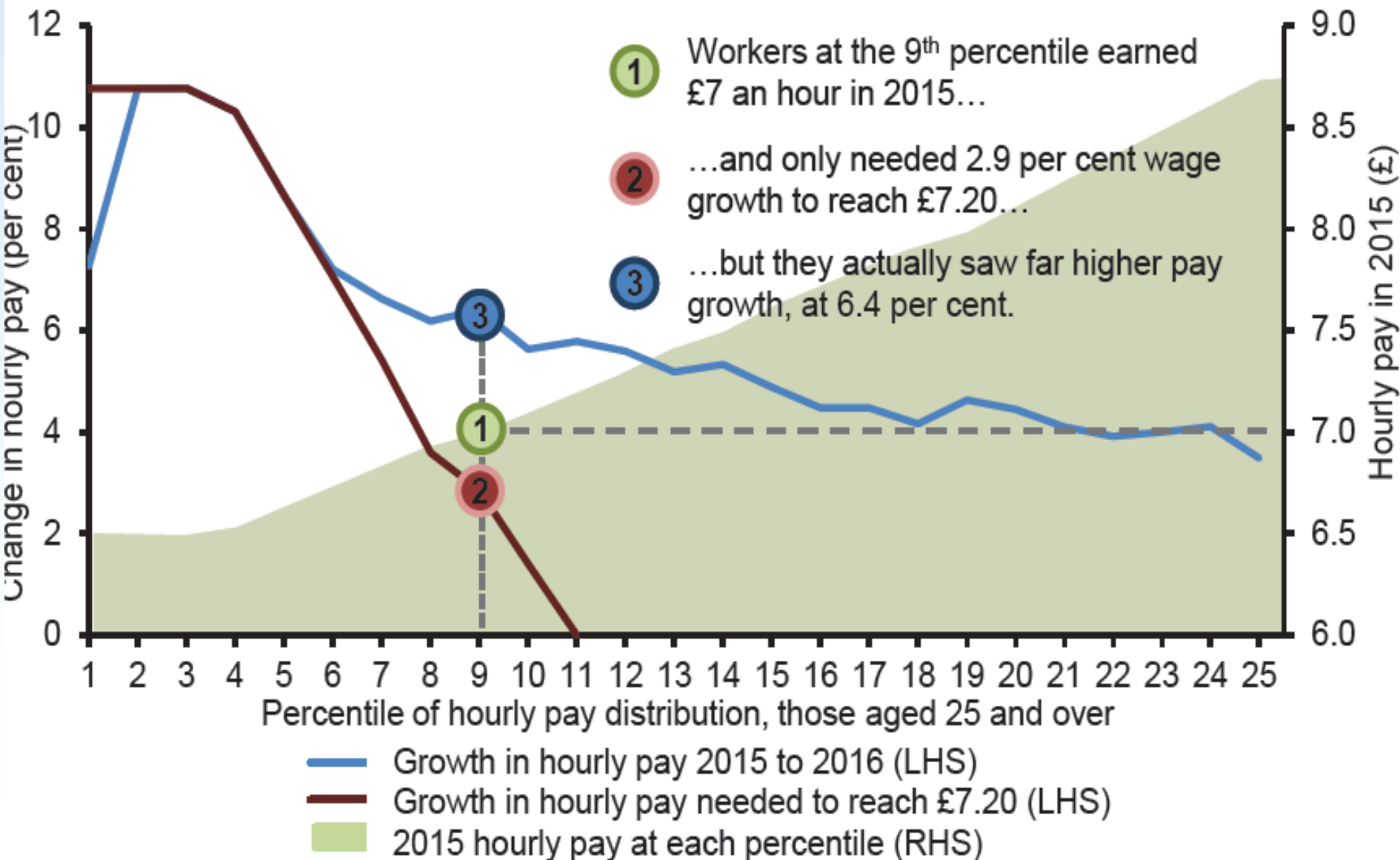
- By 2020 NLW will cover almost 3 million 25+ year workers
 - Big rise in coverage for women and part-timers
- Has substantially compressed wages
- Have been spill-overs up the wage distribution but also some compression of wage differentials
- Spill-overs to younger workers who have seen rates rise
- Anecdotal evidence of cuts in benefits and pay premia, but no hard evidence yet
- In care homes, clear evidence of wage compression and spill-over to younger workers, but no impact on employment (Giupponi et al., 2016)
- Increasing problem of non-compliance ie. underpayment
 - Up from 1.5% to 2.8%
 - Particular problem in hairdressing, hospitality, childcare and cleaning

Wage Compression with Introduction on NMW

Percentage growth in the hourly wage distribution for workers aged 25 and over, UK, 2015-2016



Percentage growth in the hourly wage distribution for workers aged 25 and over, UK, 2015-2016



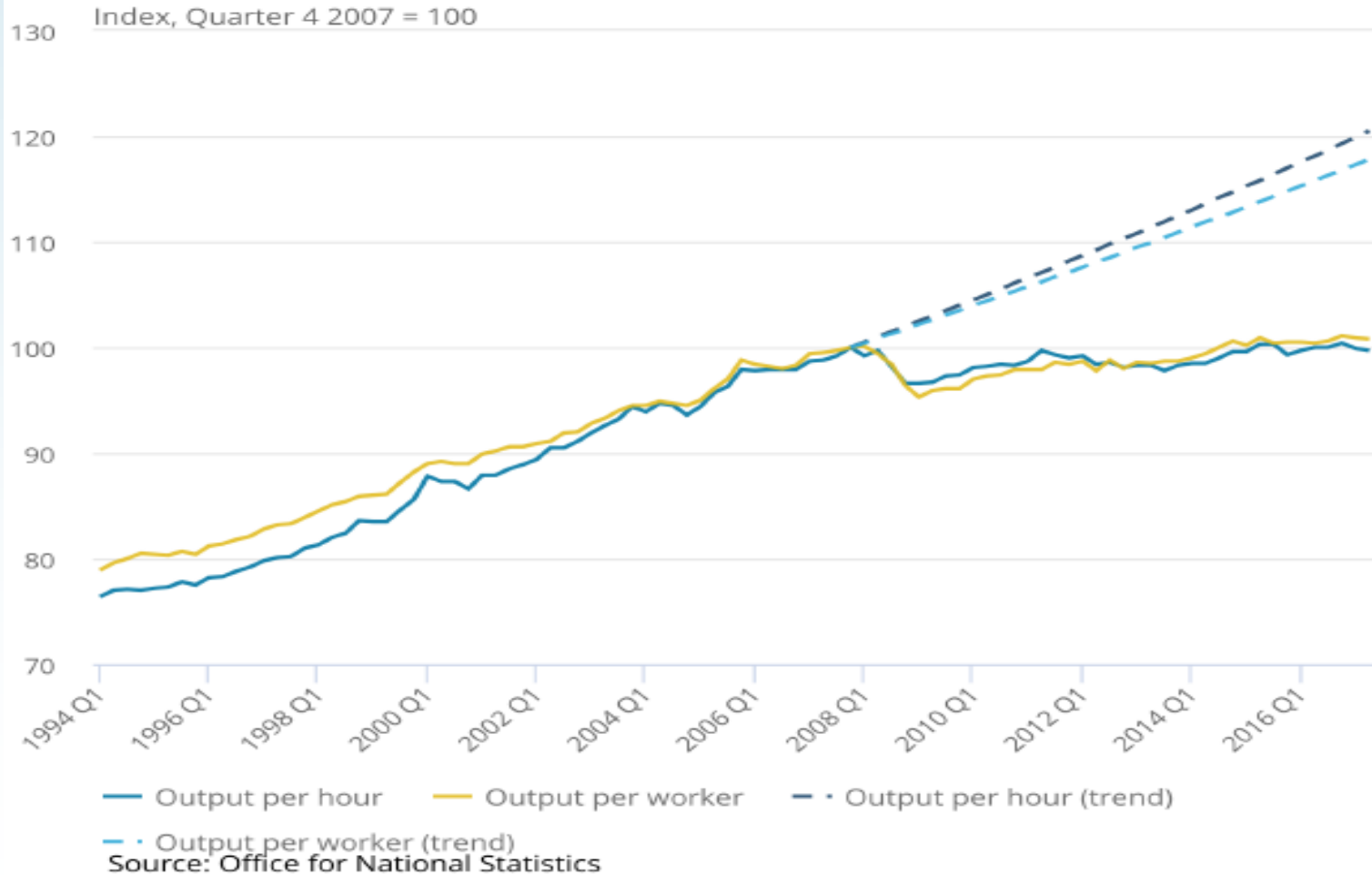
Proportions of 16–24 year olds paid at or above the NLW level, UK, 2015–2016

	Paid at or above NLW-level in 2015	Paid at or above NLW in 2016	Increase between 2015 and 2016
	(per cent)	(per cent)	(percentage point)
16–17	16	25	9
18–20	46	52	7
21–24	76	84	8
16–24	62	69	7

Source: LPC estimates based using: ASHE April 2015–2016, low pay weights.

Figure 1: Output per hour and output per worker, UK

Seasonally adjusted, Quarter 1 (Jan to Mar) 1994 to Quarter 2 (Apr to June) 2017



- Clear evidence that the NMW has substantially raised labour costs for firms and wages for low-paid workers
- Although there is some recent evidence of wage spillovers this has resulted in substantial wage compression
- There is little or no evidence of detrimental employment effects, with the possible exception of one or two sectors
- This zero employment effect is partly accounted for by reductions in excess profits, improvements in TFP, and possibly adjustments along other margins
- The new NLW target is ambitious and government has stated its desire to achieve 60% median earnings despite a challenging economic environment
- Already the NLW appears to have spillovers up the wage distribution and to younger workers
- So evidence-based policy remains vital as ever