

Research impact: making a difference

Designing a minimum wage to reduce poverty and wage inequality

LSE economics research underpinned the design of the UK's National Minimum Wage that reduced poverty and wage inequality without costing jobs

What was the problem?

For much of the last century “wage councils” had set minimum wages for a number of UK industries.

In 1993 the Government abolished the last of these bodies arguing that anything that raised wages would lead to job cuts and that the most efficient labour market would be one that was completely deregulated.

Following the Labour Party's victory in the 1997 election, the introduction of the National Minimum Wage (NMW) became government policy. But rather than legislate directly, the Government established an independent Low Pay Commission to make recommendations on the appropriate form and level.

What did we do?

Professor Alan Manning and colleagues at the LSE's Centre for Economic Performance believed that the minimum wage need not automatically destroy jobs. They suggested that a minimum wage makes work more attractive, leading to an increase in labour supply that is important for low-wage industries and to a decline in staff turnover rates and absenteeism.

Manning analysed the effect of the minimum wages set by the wages councils and in research published in the *Journal of Labour Economics* in 1999 found no evidence that they had cost jobs.

After the National Minimum Wage was introduced in 1999, Manning and colleagues investigated the impact on employment of care workers in care homes, a very low-wage sector. While they found some negative effects on employment, these effects were small considering that 30% of those workers were directly affected by the minimum wage compared with a national average of about 5%.

In 2012 CEP researchers found that the National Minimum Wage had played an important role in reducing wage inequality at the bottom of the labour market, and that it had a particularly marked effect for women and young people as well as in low-wage regions of the UK.

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What happened?

The LSE research had a direct impact on the design of the UK's National Minimum Wage. In June 1998 the Low Pay Commission (LPC) recommended minimum wages for adults aged over 22 and for those aged 18-22. Manning and LSE colleagues provided the intellectual context for the policy, advised on its implementation and evaluated its effects.

A report by Frontier Economics for the Economic and Social Research Council, which funds the Centre for Economic Performance (CEP), found that the "consensus view from LPC commissioners and CEP's research peers is that CEP research was the most influential in terms of setting the minimum wage level".

The research contributed to widespread acceptance of the view that minimum wages set at an appropriate level are a valuable tool of public policy. The research has continued to have an impact on the thinking of the Low Pay Commission, which has cited it in successive annual reports and has retained the initial structure of the minimum wage.

The Resolution Foundation's Commission on Living Standards used a report by Manning as the basis for its call to the Low Pay Commission to adopt higher minimum wages in sectors such as banking. In this report Manning drew on his research to suggest how the National Minimum Wage could be modified to have stronger effects in a recession. Manning is serving on the Resolution Foundation's expert panel on the 'Future of the National Minimum Wage and the Low Pay Commission', which has now published its findings and recommendations.

The report also attracted considerable newspaper coverage and led to several radio interviews.

In 2010, the Institute of Government voted the minimum wage the most successful UK policy of the last 30 years – a view reiterated in the Financial Times in July 2013.

The research has had considerable impact outside the UK. It had a direct impact in Hong Kong, which in 2011 introduced a minimum wage for the first time based partly on

"The work by CEP researchers was critical in countering the view popular amongst many academics and parts of the media that the NMW would have substantial employment effects. They presented research that suggested the employment effects of the NMW would be minimal, while the impact on those benefiting from the policy would be substantial."

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Manning's research. In the United States, Manning's research was cited by the Center for Economic and Policy Research to show that minimum wages tend not to destroy jobs.

Manning held several meetings with civil servants in Germany ahead of the launch of its minimum wage in 2014 and was widely quoted in newspapers and the radio during that debate. He has spoken to the Organisation for Economic Cooperation and Development (OECD), the European Trade Union Institute and Singapore's Ministry of Trade and Industry and Civil Service College.

Professor Alan Manning

Alan Manning has taught at the London School of Economics since 1989. He has researched widely on the economics of the labour market including the impact of the minimum wage, immigration and technological change on wages and employment and the sources of the gender pay gap.

Email: a.manning@lse.ac.uk

Webpage: <http://www.lse.ac.uk/economics/people/facultyPages/AlanManning.aspx>

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