

Hellenic Observatory Athens Lecture

Minimum Wages: lessons from international experience

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Overview of Talk

- Experience of OECD countries, especially the UK, with minimum wages
- The impact on employment, wage inequality and poverty
- Lessons for Greece?

Minimum wages are currently in fashion..

- They are not only common but spreading
 - In 1998 17 out of 30 OECD countries had one
 - In 2015 26 out of 34 OECD countries had one
- Germany introduced a minimum wage in 2015
- And pressure for higher minimum wages in many places:
 - 'Fight for \$15' in the US
 - UK has target for minimum wage to be 2/3rds of median hourly earnings by 2024
- This upward pressure comes from:
 - Changes in professional opinion about the impact of minimum wages
 - The political response to inequality and stagnating/falling living standards

Changes in Professional Opinion.. though remains controversial

- OECD Jobs Study, 1994 “If it is judged desirable to maintain a legal minimum wage as part of an anti-poverty strategy, consider minimising its adverse employment effects”
- OECD Job Strategy, 2018 “minimum wages can help ensure that work is rewarding for everyone” and that “when minimum wages are moderate and well designed, adverse employment effects can be avoided”

% of American Economic Association Members agreeing that
“a minimum wage increases unemployment among young and
unskilled workers”

	Agree	Agree with Provisions	Disagree
1976	68	22	10
1990	61	21	19
2000	46	28	26
2011	39	34	25

Why the Change in Opinion?

- A change in the view about how well unregulated labour markets work
 - Previously: most labour economists assumed wages would equilibrate demand and supply and any rise in the minimum wage would reduce labour demand
 - Now: more economists open to the idea that employers have some ability to influence wages and may be able to raise minimum wages without harming employment
- Empirical evidence
 - Starting with work of David Card and Alan Krueger in the US in the early 1990s, failed to find evidence that minimum wage caused job losses

A word of caution....

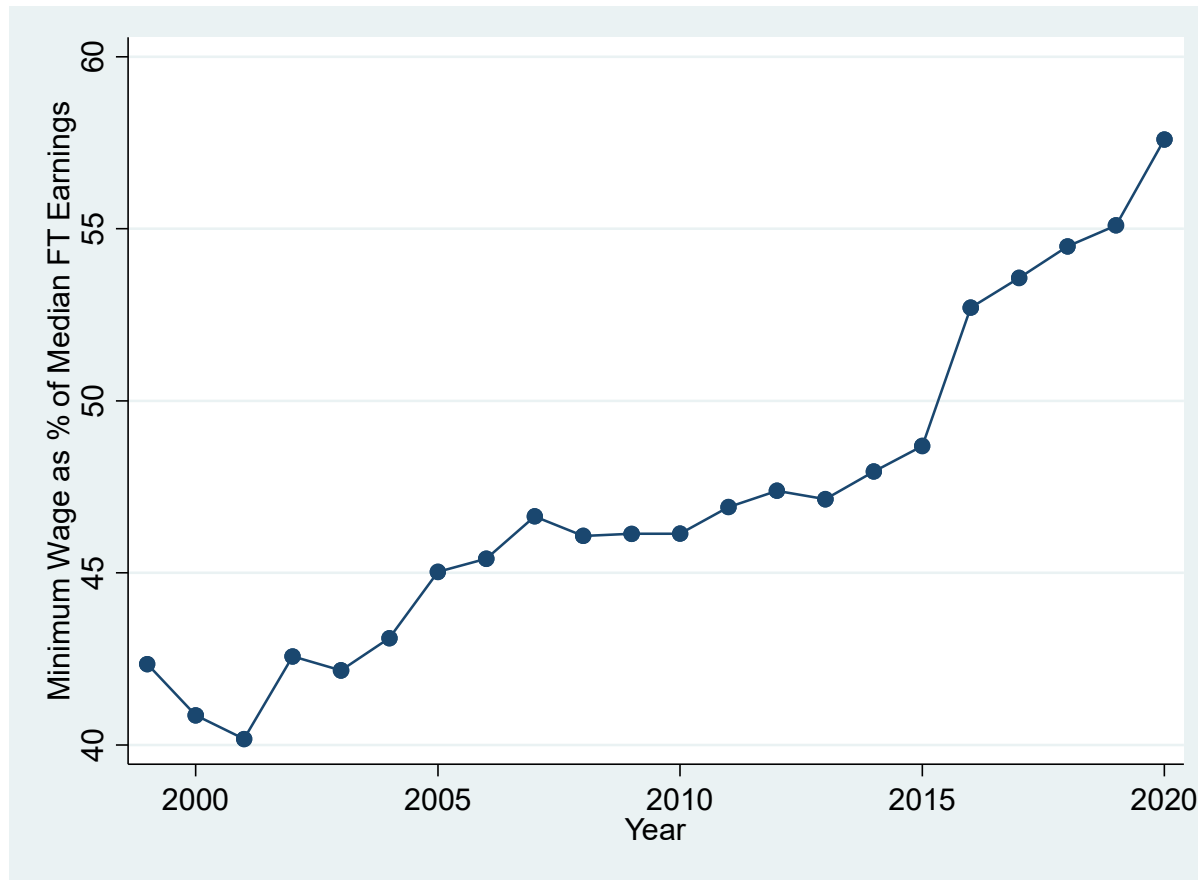
- There is little doubt that, at some level, a minimum wage will cause job losses
- But how high can minimum wage be raised before it causes job losses?
- One source of evidence is from international experience
- A number of countries have raised minimum wages in recent years and carefully examined what happens to employment – the UK is a good example

A Brief History of Minimum Wages in the UK

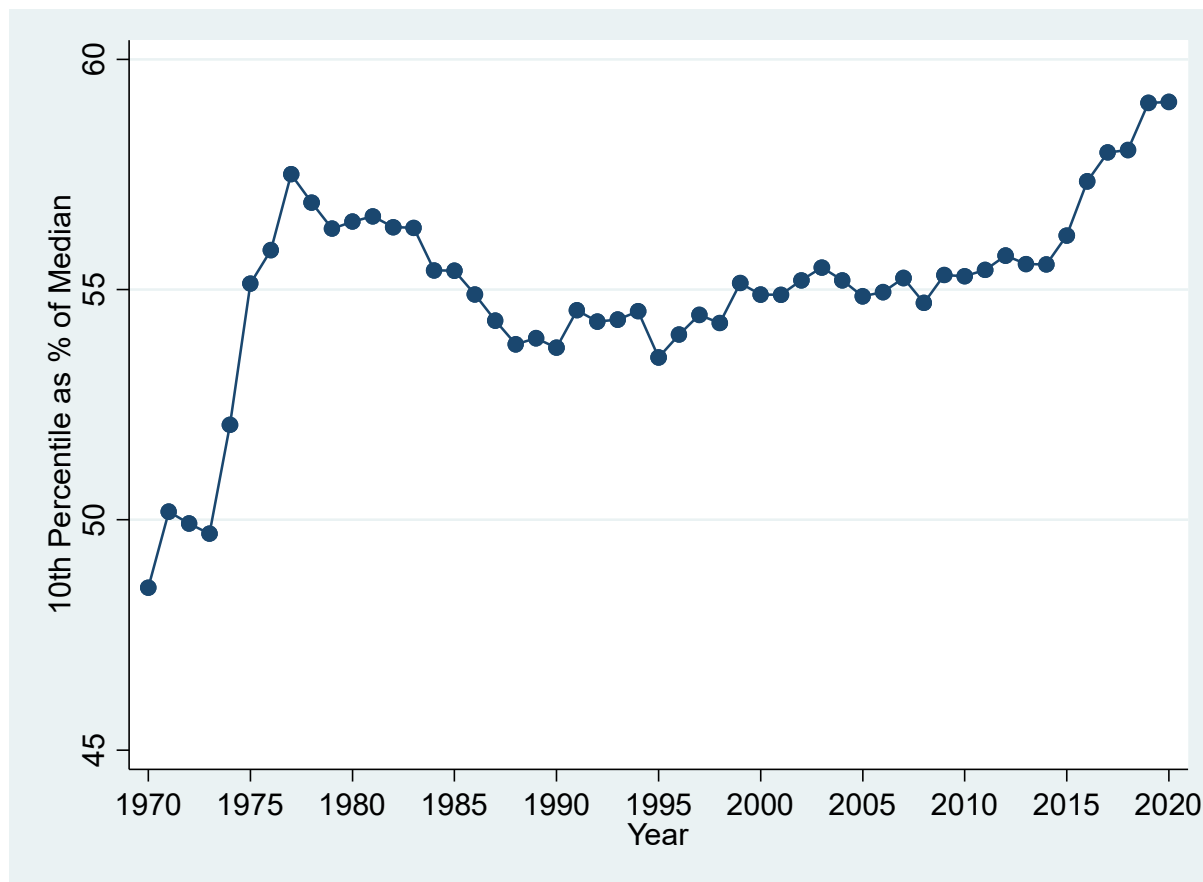
- 1909: Winston Churchill establishes Wages Councils to set minimum wage rates in certain industries
- This was a complicated and (by 1992) archaic system
- In 1993 Wages Councils were abolished leaving a minimum wage only in agriculture
- In 1999 a National Minimum Wage was introduced – this was very controversial at the time
- The institutional set-up is:
 - The independent Low Pay Commission (3 union reps, 3 employer reps, 3 independents) makes recommendations to government based on evidence
 - Government decides whether or not to implement

The Level of the NMW

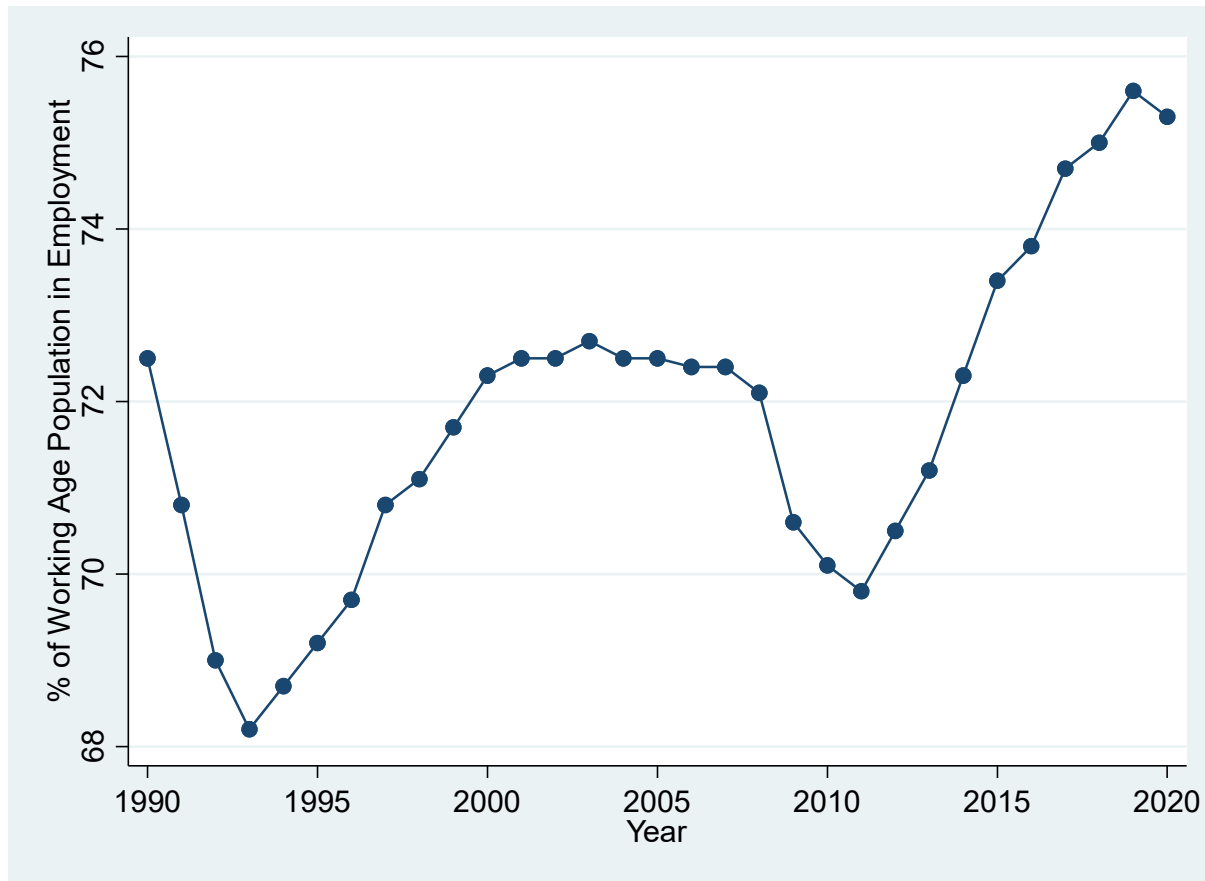
Adult Minimum Wage as Percentage of FT Median Hourly Earnings



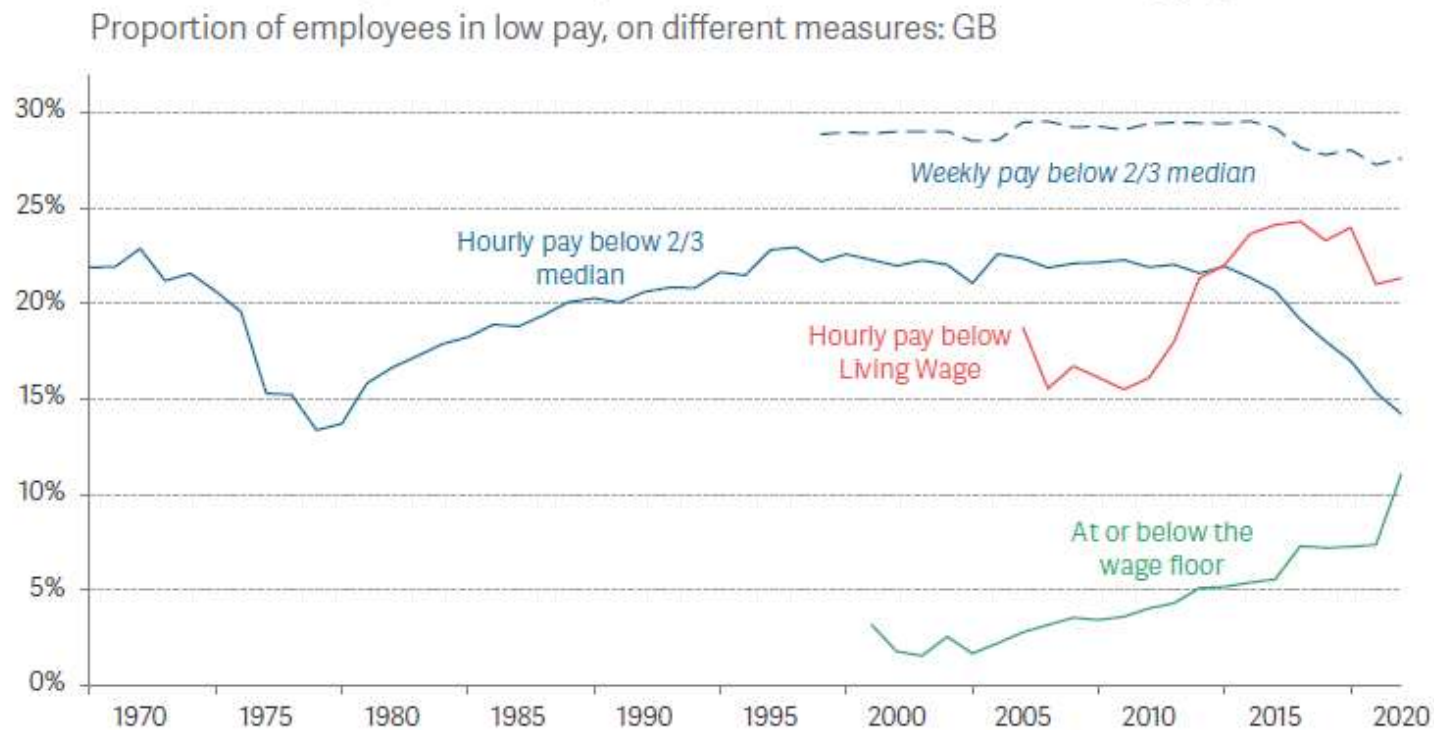
This has been very successful in reducing wage inequality in the bottom part of the wage distribution to a 50-year low



And without any clear impact on employment



Benefitted workers at bottom of wage distribution but not more widely



The National Living Wage , 2016-

- In 2016 Finance Minister surprised everyone by announcing the NLW, a higher minimum wage for 25+
- Plus a target for it to be 60% of earnings by 2020
- Now applies to those 23+
- And a 6.6% increase in April 2021
- This has been responsible for bigger impacts on wage inequality seen since 2016
- So far little evidence of adverse employment effects

But there are some issues....

- The government made its decision to introduce the NLW without the recommendation of the its expert committee, the Low Pay Commission
- The minimum wage has its limitations as an anti-poverty tool
- As the minimum wage has risen
 - enforcement has become more of an issue
 - employers may be responding to higher minimum wage in ways that are undesirable
- All of this has lessons for other countries

Evidence-based policy making

- Many other countries (incl. Greece) have followed UK in having an independent 'expert' committee to make recommendations
- The idea is that they can consider the evidence which will then clearly indicate what to do
- But we sometimes need policy-based evidence making – a step into the unknown
- But have to be prepared to backtrack if evidence shows this was a bad idea – this is not too hard as there is no cliff-edge, only gentle slopes

The Minimum Wage and Poverty

- A useful tool but a blunt instrument for addressing household poverty
- Poverty does not depend just on hourly wage, also depends on:
 - Whether in work at all
 - How many hours are worked
 - How many others in household work and at what wage
 - How many dependants there are?
- Can be useful to combine minimum wage with in-work benefits for the low-paid – these policies are complements not substitutes

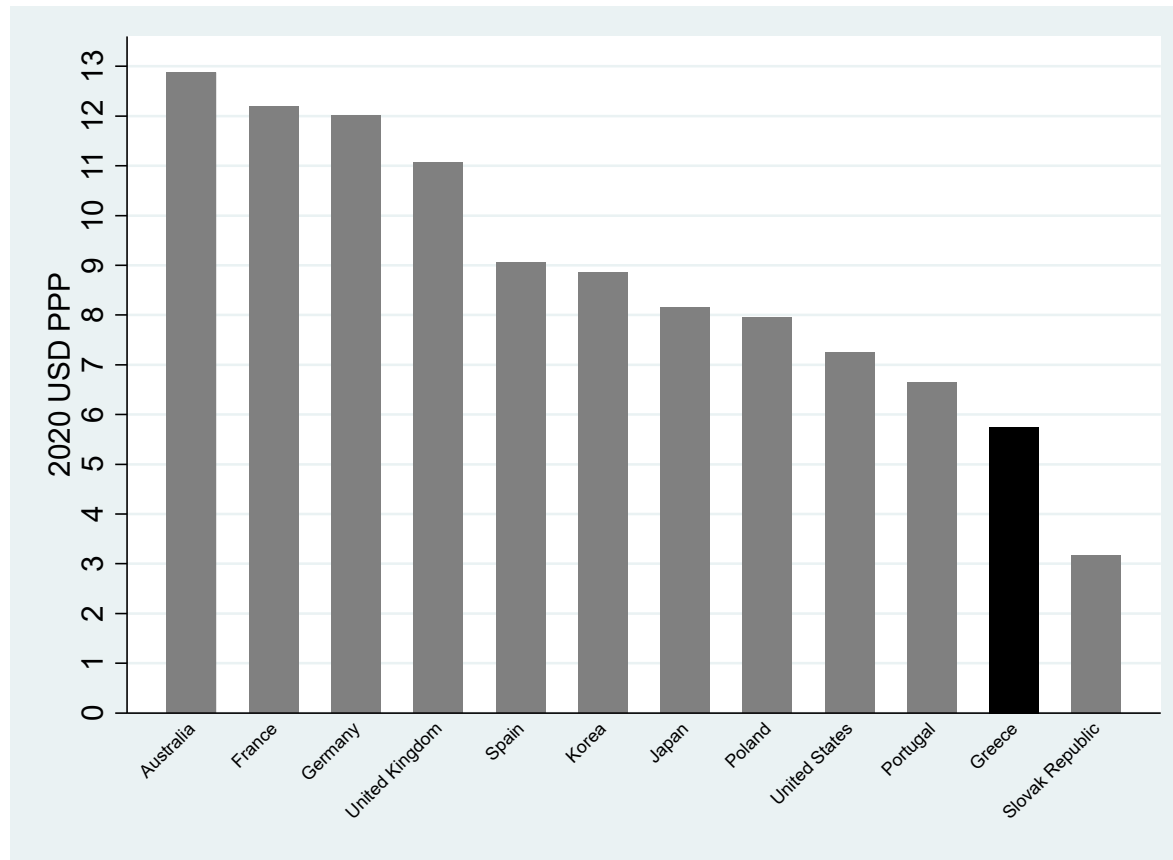
Employer Responses to Higher Minimum Wages

- Evidence here is less clear but some anecdotal evidence
- Some illegal under-payment, possibly increasing
- Defining employees as self-employed (who have no minimum wage)
- Being more careful about the hours they pay for:
 - Zero hours contracts
 - No guaranteed hours leading to income volatility

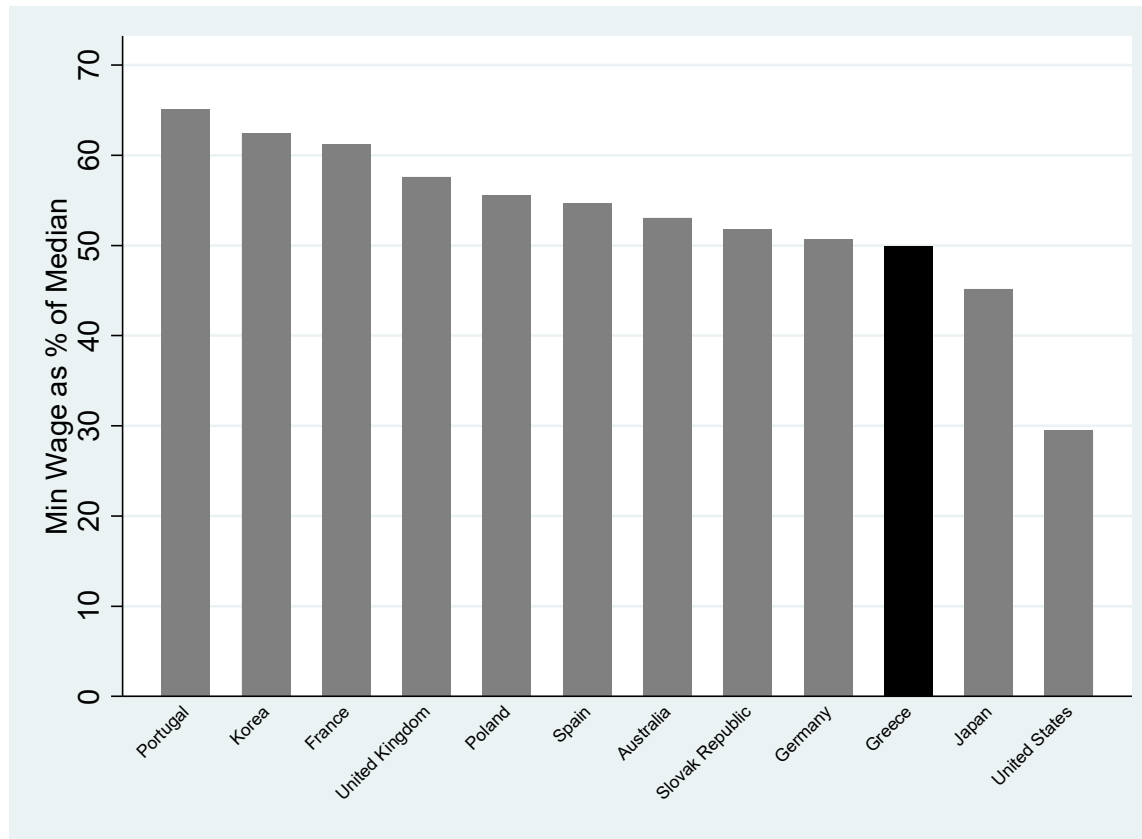
A single minimum wage ... or many?

- The UK system has some variation in minimum wage by age
- The idea behind this is:
 - Wages are lower for younger workers
 - It is more important to have them in employment than to raise their pay
- Though many employers do not use this
- Some have also argued for regional variation
- The Greek system has had some age variation but also, unusually, variation by marital status and labour market experience
- Trade-off is between the virtues of a simple system and the ability to fine-tune the minimum wage to labour markets

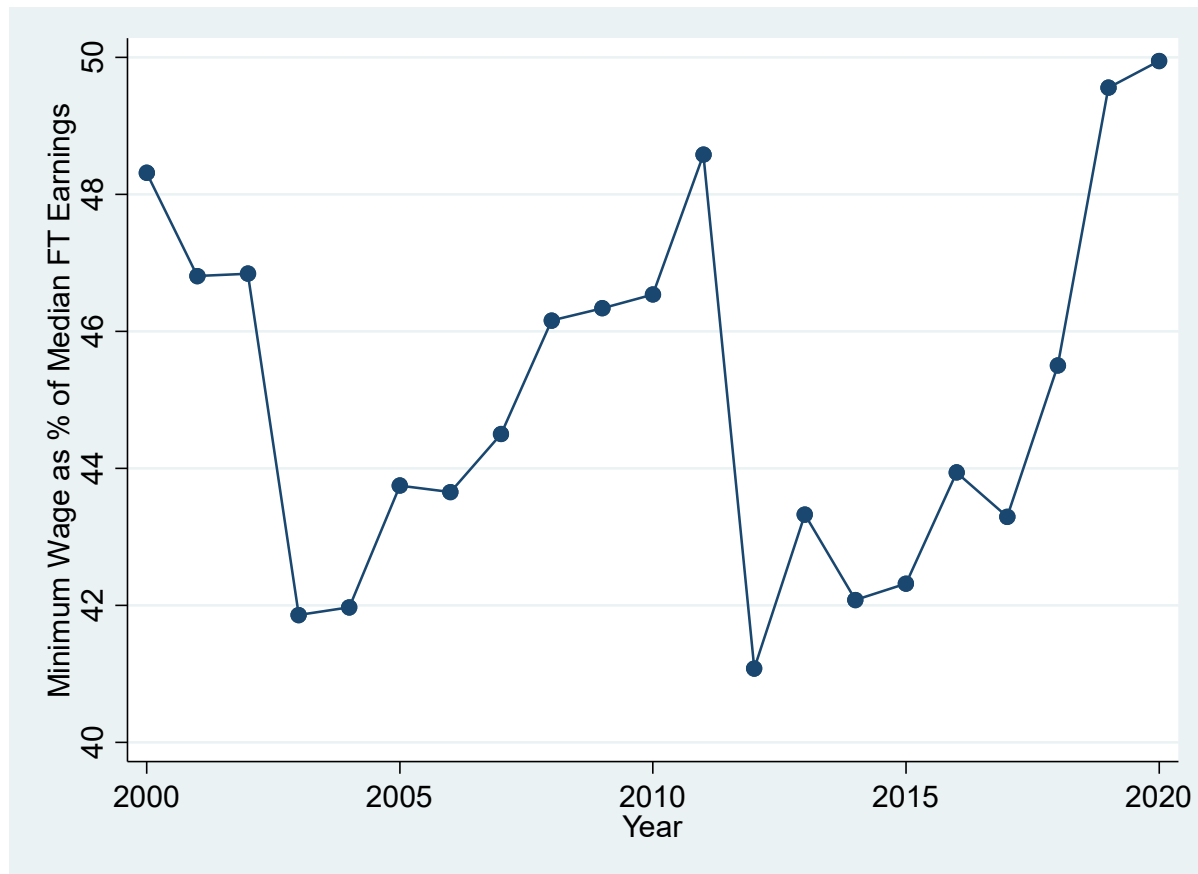
What Does This Mean for Greece: Comparing the Level of Minimum Wages Around the World



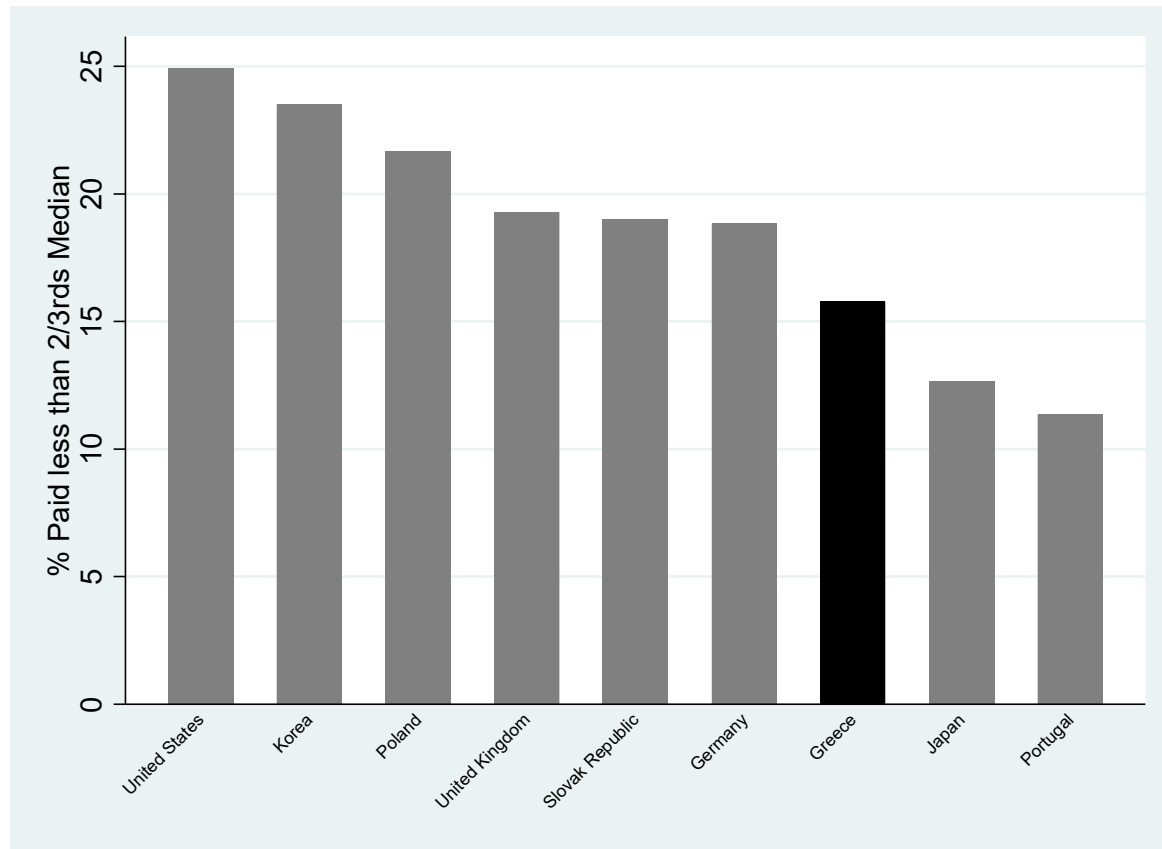
But average wages vary a lot so much better to look at min wage as % of median wage, 2020



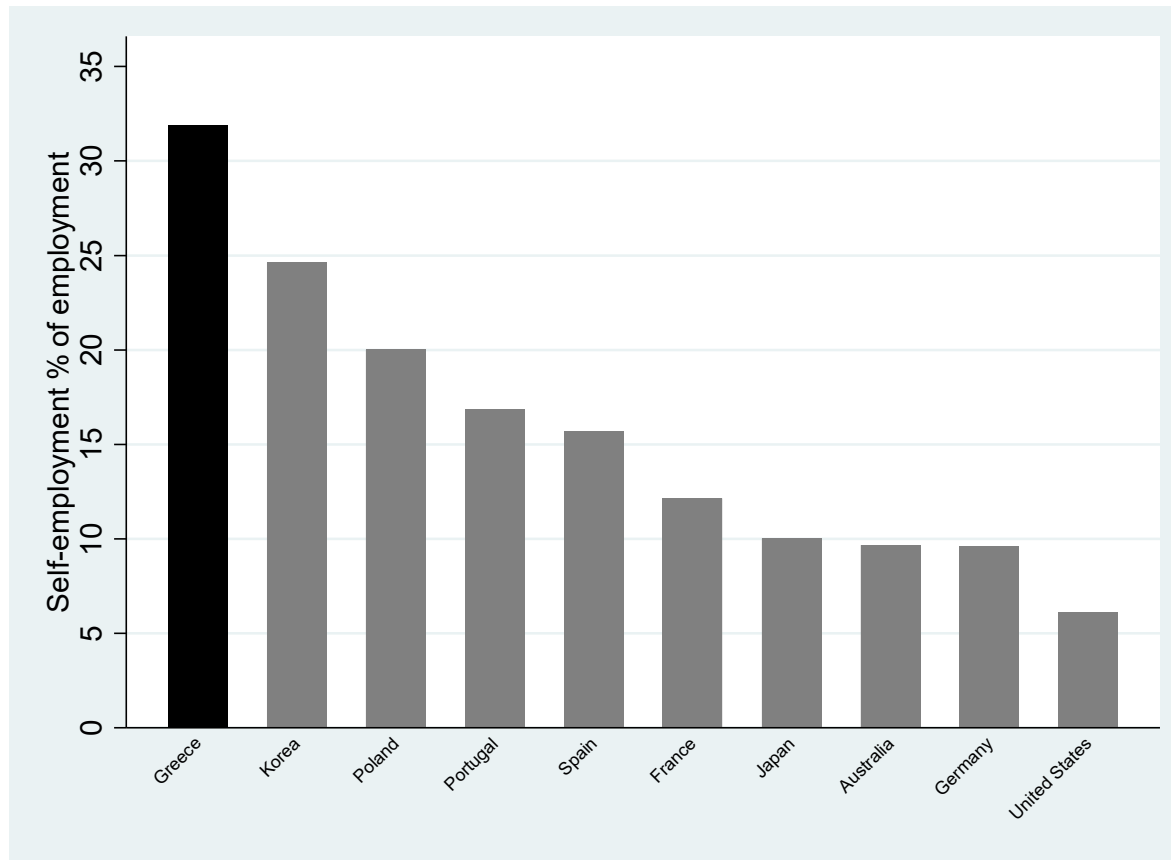
Minimum as % of Median Over time: Greece



Incidence of Low Pay

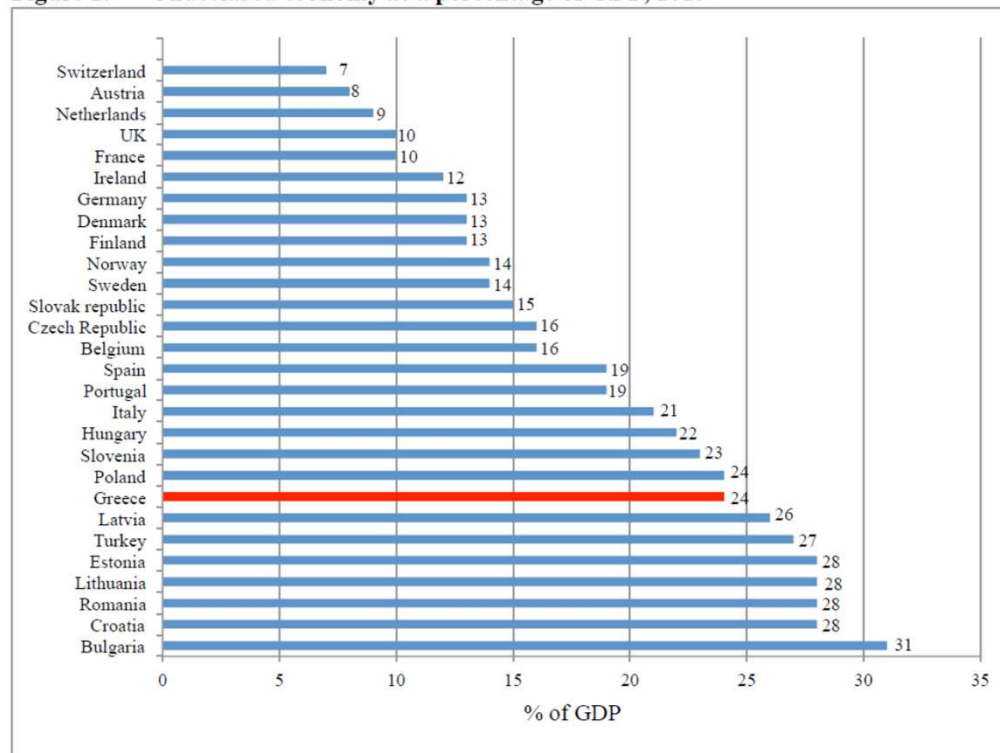


Greece has a high share of self-employment



Greece has more informality than most OECD countries so an issue with enforcement

Figure 2. Undeclared economy as a percentage of GDP, 2013



Other issues that may be important

- In the UK most minimum wage workers are in non-traded sectors
- In Greece this may be less true
- The UK has high employment rates even for groups which often have low levels of employment so a focus on raising wages for those in work makes sense
- Greece has continuing very high unemployment especially among some groups so reducing that may be more of a priority

Conclusion

- Minimum wage can be part of a strategy to reduced poverty and inequality
- But don't expect too much and don't try to use it to achieve everything
- There are useful lessons to be learned from international experience but must also be careful to take account of local circumstances