

Institution: London School of Economics and Political Science
Unit of Assessment: 18: Economics and Econometrics
Title of case study: Setting national minimum wages
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Research by Alan Manning and colleagues at LSE's Centre for Economic Performance (CEP) has contributed to widespread acceptance of the view that minimum wages set at an appropriate level are a valuable tool of public policy. CEP researchers had a direct impact on the design of the UK's National Minimum Wage (NMW) and thus on the living standards of poorer workers and their families. They provided the intellectual context for the policy, advised on its implementation and evaluated its effects. CEP research has had some initial impact on the introduction of the minimum wage in Hong Kong. It has also influenced debates around the world about the introduction or modification of minimum wages.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>RESEARCH INSIGHTS AND OUTPUTS: The research has been in three main areas.</p> <p>1. Monopsony in the labour market: The conventional wisdom that minimum wages must reduce employment comes in large part from a view that the labour market is well approximated by the model of perfect competition. Accordingly, anything that increases wages must then necessarily reduce employment through a fall in the demand for labour. Manning's work on monopsony argues that employers have significant market power over their workers, an important implication of which is that the supply of labour and how it responds to increasing wages are as important as the demand for labour (1). Empirical validation of this theoretical analysis has addressed concerns that minimum wages may destroy jobs and lead to an increase rather than a reduction in inequality.</p> <p>2. The effects of the minimum wage on employment: The common argument against a minimum wage (that it destroys jobs) led in 1993 to the Conservative government's abolition of the UK's Wages Councils, which had previously set minimum wages in a number of low-paying industries. CEP research analysed the effect of the minimum wages set by the Wages Councils and concluded that there was no evidence that they had cost jobs (2). Subsequent to the introduction of the NMW in 1999, CEP investigated the impact on employment in a very low-wage labour market – care workers in care homes (3). This study found some negative effects on employment but they were small considering that 30% of workers were directly affected by the minimum wage (the national average is about 5%).</p> <p>3. The effects of the minimum wage on wage inequality: CEP research investigated the short-run effects of the introduction of the UK's NMW on wage inequality. It concluded that the only effect was to raise the wages of workers who were directly affected, so the NMW benefitted only about 5% of workers (4) and (5). More recent research (6) has concluded that, over a longer time period, the NMW has had some spillover effects, influencing the earnings of those paid above the minimum. This study found that the NMW has played an important role in reducing wage inequality at the lower end of the labour market, an effect that is particularly marked for women and young people, as well as in low-wage regions.</p> <p>KEY RESEARCHERS: Alan Manning has been full-time at LSE since 1993. Key CEP colleagues have been: Stephen Machin (50% at LSE through this period); Richard Dickens (full-time until 2000, 40% until 2006, now a research affiliate).</p>
<p>3. References to the research (indicative maximum of six references)</p> <p>1. Manning, Alan (2003) <i>Monopsony in Motion: Imperfect Competition in Labor Markets</i>, Princeton University Press http://eprints.lse.ac.uk/5924</p>

2. Dickens, Richard, Stephen Machin and Alan Manning (1999) 'The Effect of Minimum Wages on Employment: Theory and Evidence from Britain', *Journal of Labor Economics* 17: 1-23. DOI: 10.1086/209911

3. Machin, Stephen, Alan Manning and Lupin Rahman (2003) 'Where the Minimum Wage Bites Hard: The Introduction of the UK National Minimum Wage to a Low Wage Sector', *Journal of the European Economic Association* 1(1): 154-80. <http://eprints.lse.ac.uk/2452>

4. Dickens, Richard and Alan Manning (2004) 'Has the National Minimum Wage Reduced UK Wage Inequality?' *Journal of the Royal Statistical Society Series A* 167: 613-26. DOI: 10.1111/j.1467-985X.2004.ael2.x

5. Dickens, Richard and Alan Manning (2004) 'Spikes and Spillovers: The Impact of the National Minimum Wage on the Wage Distribution in a Low-wage Sector', *Economic Journal* 114: C95-101. DOI: 10.1111/j.0013-0133.2003.00198.x

6. Butcher, Tim, Richard Dickens, and Alan Manning (2012) 'Minimum Wages and Wage Inequality: Some Theory and an Application to the UK', *CEP Discussion Paper No. 1177*. <http://cep.lse.ac.uk/pubs/download/dp1177.pdf>

EVIDENCE OF QUALITY: Publications (2)-(5) are published in top-ranked peer-reviewed journals and (6) is currently under review. (1) has nearly 800 Google Scholar citations.

4. Details of the impact (indicative maximum 750 words)

NATURE OF THE IMPACT: Centre for Economic Performance (CEP) research on minimum wages has: (a) had a direct impact on the initial design of the UK's National Minimum Wage (NMW), a design that has persisted to the present; (b) had some initial impact on the introduction of the minimum wage in Hong Kong; and (c) continues to influence debates around the world about the introduction or modification of minimum wages.

a. The UK's National Minimum Wage:

LSE research on the effect of minimum wages on employment had a large impact on the initial deliberations of the Low Pay Commission (LPC) as it provided the only credible UK evidence at that time. A 2009 report for the ESRC by Frontier Economics 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' (see Source A). Further: 'in the case of the National Minimum Wage (NMW) we have been able to provide some indication of the value generated by CEP research. Of course, it is impossible to attribute with any precision the value generated, but if we start with a gross benefit of £1.2 billion attributed to the policy, then even if only 2% of that gross benefit is attributable to CEP that equates to £24 million in 2008 prices.' Since the initial structure of the minimum wage has been maintained over time, CEP work continues to have impact, not least on living standards, as well as on the thinking of the LPC (Source B).

In April 2012, Manning published a report for the Resolution Foundation's Commission on Living Standards (Source C) which drew on CEP research to make suggestions about how the NMW could be modified to have stronger effects in a recession (Source C). This report attracted considerable newspaper coverage and led to several radio interviews (28 media mentions recorded). Its call for a modification of the mandate of the LPC to recommend higher minimum wages in some sectors (eg banking) was adopted by the Commission on Living Standards in its final report (Source D). Manning is currently serving on the Resolution Foundation's expert panel on the 'Future of the National Minimum Wage and the Low Pay Commission', chaired by George

Bain, the founding chair of the LPC.

The impact of the research can also be seen in articles about minimum wages in the media (Source E). For example, the 'Free Exchange' column in *The Economist* on 24 November 2012 was devoted to minimum wages. Two of the seven articles referred to were by Alan Manning and *The Economist* column referred to 'monopsony' as the main reason why minimum wages might not reduce jobs. Increasing acceptance among mainstream economic commentators of the view that labour markets might have monopsonistic aspects is an important secondary impact of the underpinning research.

b. Beyond the UK: CEP's expertise on NMWs is in demand from other countries.

Direct. 1. Hong Kong introduced a minimum wage for the first time in 2011. The process by which that decision was made involved looking at research done in other countries, including the research cited here on the UK. The legislation that was introduced cites references (1), (2), (4) and (5) from section 3, as well as other research on the topic by LSE-based researchers (Source F).

Indirect 2i. United States: in his 2013 State of the Union Address, President Obama proposed raising the federal minimum wage from \$7.25 to \$9.00 per hour. Manning's research on monopsony has been cited as one reason the minimum wage may not destroy jobs – for example, in a document produced by the DC-based Center for Economic and Policy Research. Manning has also written about the Obama proposal for the Milken Institute Review (Source G).

2ii. Germany: there has been an active debate in Germany over several years about the introduction of a minimum wage – as opposed to minimum pay rates set in local collective agreements – culminating in an announcement by Angela Merkel on 25 April 2012 of plans to introduce a national minimum wage. The UK experience has been regarded as of particular relevance for informing that debate. For example, *The Economist* of 5 November 2011 wrote that: 'the CDU seems to be heeding newer British and American ideas'. Manning's expertise has been called on by a variety of people in Germany, as evidenced by his meetings with German civil servants, radio interviews, quotations in the press and a commission to write an article on the UK experience for *Focus* magazine, which has a weekly circulation of 500,000, the third largest in Germany (Source H).

2iii. Wider international debates: there is interest in many European countries about what can and cannot be achieved by minimum wages and Manning contributes significantly to the public debate. For example, in December 2011, Manning was invited to speak to a meeting of academics and trade unionists at the European Trade Union Institute in Brussels about the UK experience. Globally, organisations like the OECD and the International Monetary Fund (IMF) have changed their recommendations to be more supportive of the use of minimum wages. A joint report by the OECD, the IMF, the World Bank and the International Labour Organization (ILO) for the G20 labour ministers' meeting in June 2012 wrote that 'a statutory minimum wage set at an appropriate level may raise labour force participation at the margin, without adversely affecting demand, thus having a net positive impact especially for workers weakly attached to the labour market', a markedly more positive view than expressed in the past (Source I). In March 2012, Manning was invited by Singapore's Ministry of Trade and Industry and Civil Service College to advise on how Singapore might combat rising wage inequality, which, combined with a slowing overall rate of growth, has led to stagnant or even falling living standards for low-wage workers (Source J).

WHY THE IMPACT MATTERS: Well-organised National Minimum Wage schemes reduce poverty and wage inequality. LSE research has contributed to this goal in several countries. 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.

5. Sources to corroborate the impact (indicative maximum of 10 references)

All sources listed below can also be seen at: <https://apps.lse.ac.uk/impact/case-study/view/17>

A. The 2009 Frontier Economics report for the ESRC – ‘Measuring the Impact of ESRC Funding’ – at: <https://apps.lse.ac.uk/impact/download/file/1334>

B. The 2009 LPC annual report cited publications (1), (2) and (3) from section 3; the 2010 report cited publications (3) and (5); and the 2011 and 2012 reports both cited publications (1), (2) and (5). The Financial Times article is available at: <http://www.ft.com/cms/s/0/1265614e-f9f0-11e2-b8ef-00144feabdc0.html#axzz2bD28unBq> <https://apps.lse.ac.uk/impact/download/file/1335> <https://apps.lse.ac.uk/impact/download/file/1336> <https://apps.lse.ac.uk/impact/download/file/1337> <https://apps.lse.ac.uk/impact/download/file/1338> <https://apps.lse.ac.uk/impact/download/file/1339>

C. The report for the Resolution Foundation. For evidence of the impact of the report, see the New Statesman. <https://apps.lse.ac.uk/impact/download/file/1341> <https://apps.lse.ac.uk/impact/download/file/1342>

D. See: the final report of the Commission for Living Standards: <https://apps.lse.ac.uk/impact/download/file/1343>

E. The article in The Economist on minimum wages that cites the underpinning research; this article cites publication (5) from section 3 as well as the report for the Resolution Foundation. <https://apps.lse.ac.uk/impact/download/file/1344>

F: The Hong Kong Legislative Council Brief citing several CEP publications is available at: <https://apps.lse.ac.uk/impact/download/file/1345>

G. US: The Center for Economic and Policy Research document that cites the research on monopsony – ‘Why Does the Minimum Wage Have No Discernible effect on Employment?’; and Manning’s article for the July 2013 Milken Institute Review ‘+25%: To Raise, or Not to Raise, the Minimum Wage – Again’. <https://apps.lse.ac.uk/impact/download/file/1346> <https://apps.lse.ac.uk/impact/download/file/1347>

H. Germany: The Economist is at: <http://www.economist.com/node/21536648>. For official references: (<http://www.bmwi.de/BMWi/Navigation/Service/publikationen,did=323736.html>) and (<http://www.bmas.de/DE/Themen/Arbeitsrecht/Meldungen/evaluation-mindestloehne.html>). Manning had interviews reported in Die Welt (<http://www.welt.de/politik/ausland/article13690154/Der-britische-Mindestlohn-Vorbild-fuer-Deutschland.html>) and Frankfurter Allgemeine Zeitung (<http://www.faz.net/aktuell/wirtschaft/grossbritannien-der-mindestlohn-ist-keine-wunderwaffe-11514284.html>).

I. International organisations: for details of Manning’s talk to the European Trade Union Institute, see: <http://www.etui.org/Events/What-do-we-and-what-don-t-we-know-about-minimum-wages-in-Europe>. The joint report by the IMF, the OECD, the World Bank and the ILO. <https://apps.lse.ac.uk/impact/download/file/1351>

J. Singapore: A summary of one of Manning’s talks in Singapore. <https://apps.lse.ac.uk/impact/download/file/1353>