

Minimum Wages and Employment: A View from OECD Countries

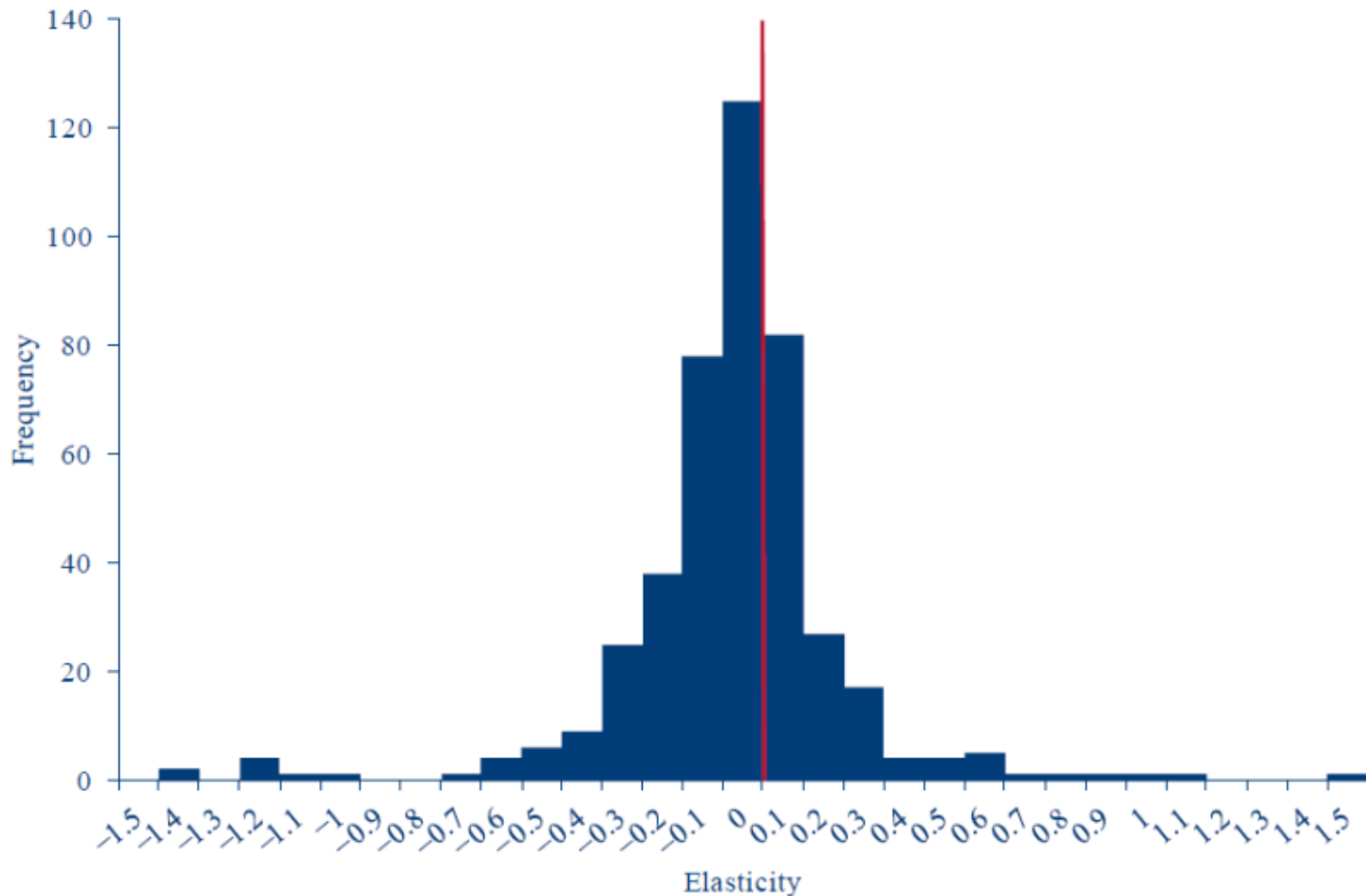
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The minimum wage and job losses?

- The main concern with minimum wages is that they price workers out of jobs, thus harming those the policy is meant to help
- But evidence from US, UK strongly suggests no noticeable effect on employment at level of minimum wages there.

Summary of the US Evidence: Estimated Employment Elasticities

Figure 1 Distribution of Employment and Hours Elasticities for the Meta-Regression



Summary of the UK Evidence

- When UK NMW was introduced some claimed it would cost millions of jobs
- But the best estimate is that it had no detectable effect on employment
- NMW has bigger effect on low-paid workers – women, the young, in low-wage regions
- Lets look at changes in wages and employment, 1997-2007 by these labour market segments
- Earlier we saw clear evidence for a wage effect

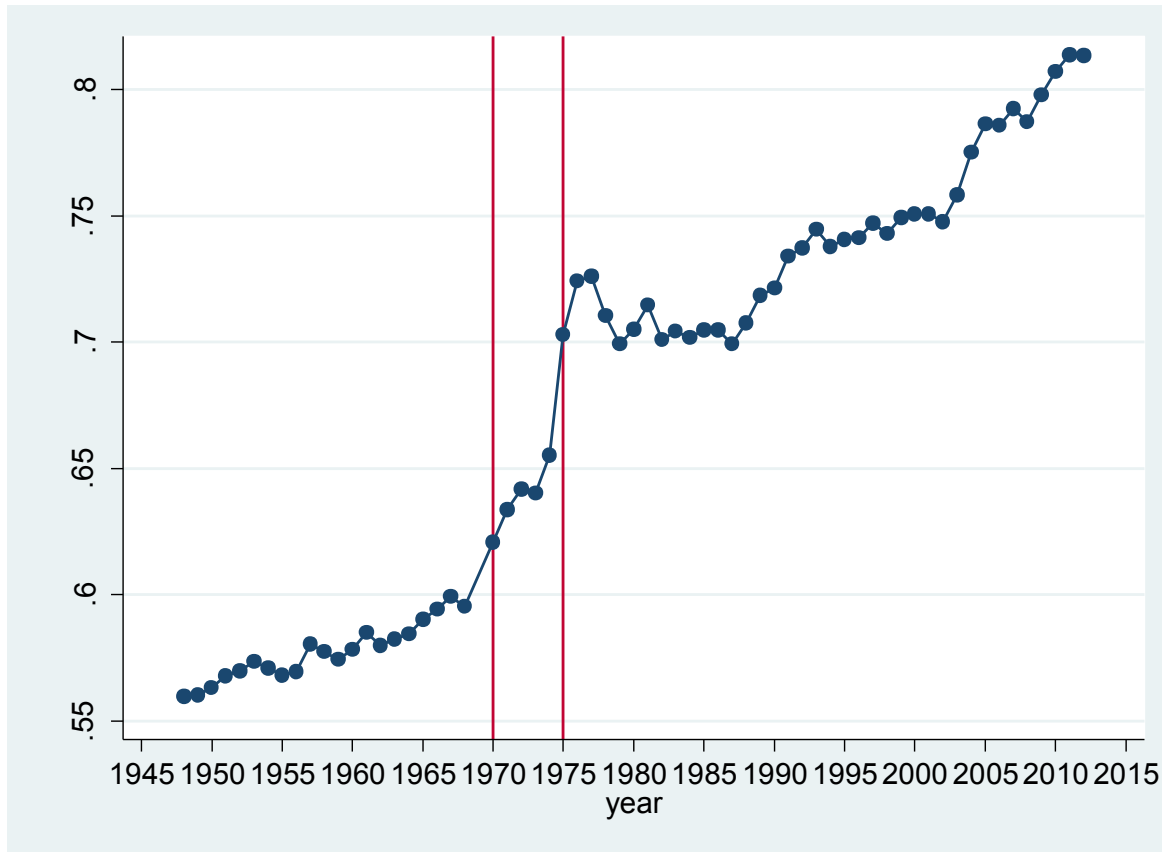
But little evidence for impact on employment



My favourite example of why raising wages does not always reduce employment

- UK Equal Pay Act, 1970, enforced 1975
- Made it illegal to pay men and women different wages in same job
- This raised pay of women relative to men by a lot

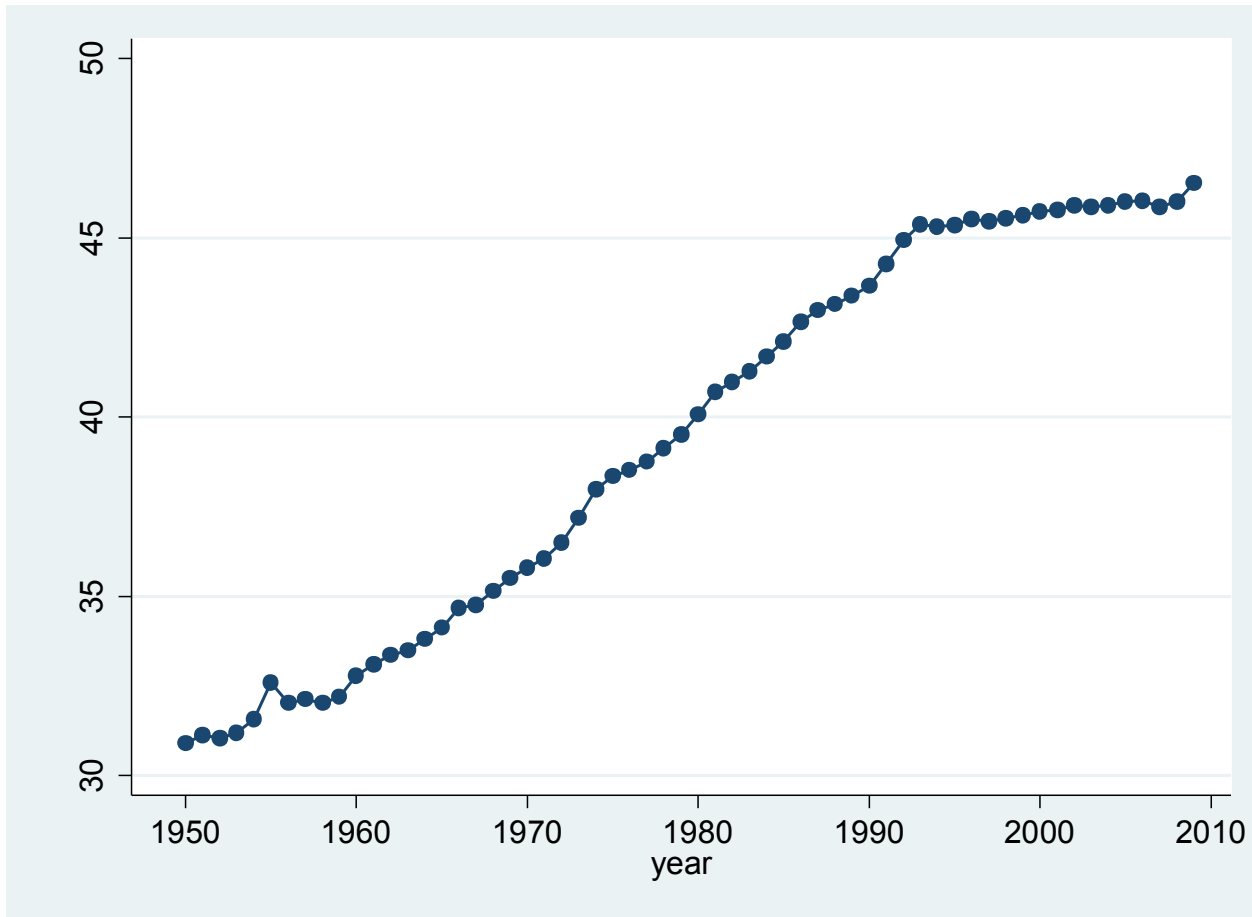
The headline gender pay gap in hourly earnings, 1948-2009



The Times – October 1st 1969

There were strong indications that in industries heavily reliant upon large numbers of women workers like textiles, electronics, footwear, and food, drink and tobacco, employers would cut back on female employment. Executives suggested that men could be trained to do jobs traditionally done by women, and employers faced with the choice of a man or a woman, at the same wages, would opt for a man.

The Share of Female Employment



A word of caution

- There is little doubt there is a level of the NMW that would cause job losses
- We don't know very much about what that level is
- We may find out in the near future as several places are pushing minimum wages higher
 - Some US cities are introducing minimum wages affecting 33%+ of workers, at about 60% of median earnings

Why is there little or no employment effect? – Possible Reasons

- Labour costs do not rise as much as one might predict in a simple model
- Employment not that sensitive to labour costs
- Off-setting benefits to level of demand
- Its not just labour demand that affects the level of employment

Labour costs do not rise as much as expected

- Employers may be able to off-set rise in wages by:
 - Reducing other benefits
 - Reducing turnover costs
 - Using labour more efficiently

Labour demand not very sensitive to wages

- Most minimum wage workers in non-traded sector
- Increase in minimum wage leads to an increase in prices, but labour costs often a relatively small share of total costs so price rise is small
- Small rise in prices leads to a small fall in demand

Demand Effects

- Evidence suggests that an increased minimum wage redistributes income from profits to labour
- If marginal propensity to consume is higher out of labour income than profits this is likely to increase aggregate demand
- This may increase employment if aggregate demand is the constraint on overall employment
- But increase in demand will be spread across all workers, not necessarily just minimum wage workers

Why is there little or no employment effect?

- Many discussions of minimum wages assume that it is only labour demand that determines employment
- But in labour markets with frictions, supply is important as well
- Higher wages reduce labour demand but encourages labour supply and employment is influenced by both
- So impact on employment is unclear

Conclusion

- There is no strong evidence of job losses associated with minimum wages at levels seen in countries like the UK
 - 55% of median, affecting 5% of workers directly 10-15% indirectly
- The level of the minimum wage is likely to be important : it is possible it is harmful
- Discussion of appropriate level must be evidence-based – a truly independent Low Pay Commission helps with this