

# **Minimum Wages, Inequality and Poverty: A View from OECD Countries**

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# Statutory Minimum Wages: the Context in OECD countries

- 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 one in 2015
- And pressure for higher minimum wages in many places:
  - \$15 minimum wage in some US cities
  - UK National Living Wage for 25+ in April 2016

# This upward pressure comes from

- The political response to inequality and stagnating/falling living standards
- Changes in professional opinion about the impact of minimum wages:
  - Used to be largely hostile
  - But now thinks minimum wages can be useful, though only when set at an appropriate level

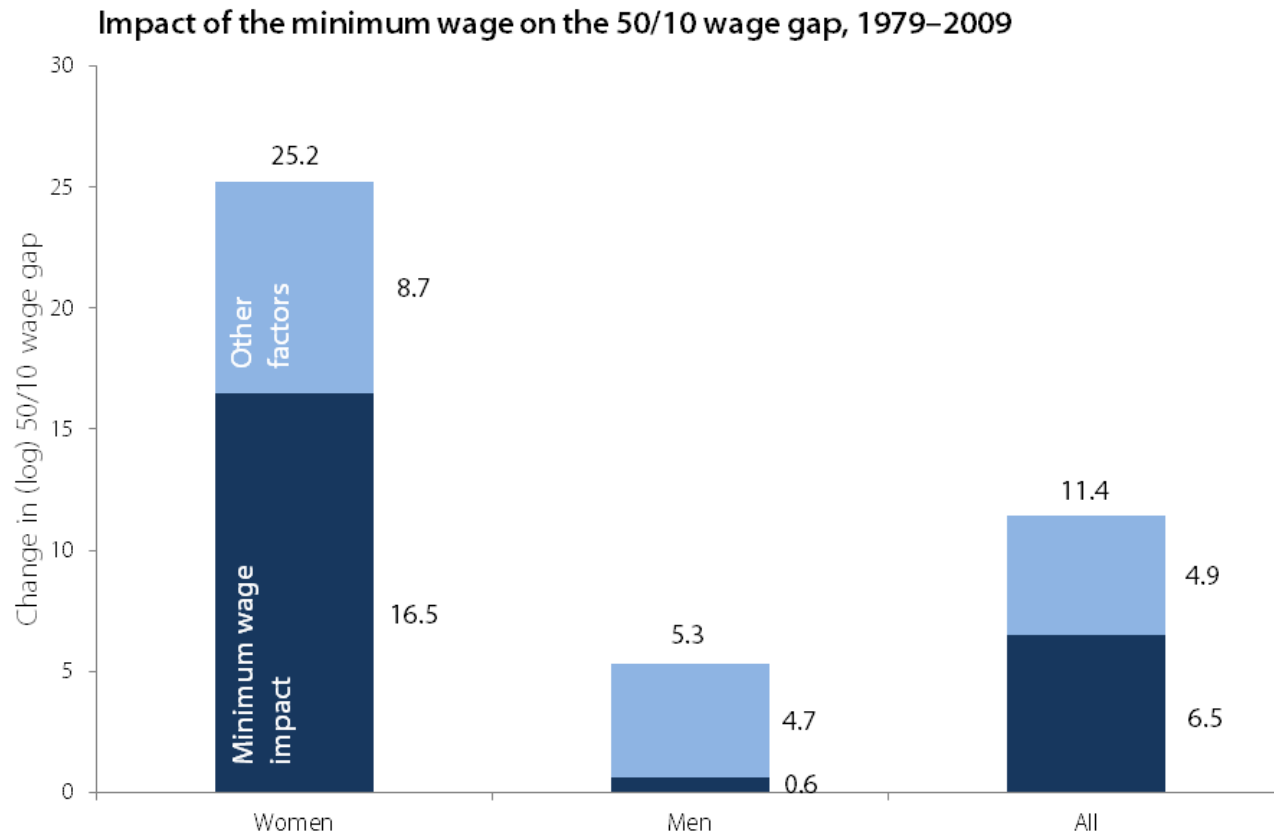
# Overview of Talk

- Experience of OECD countries, especially the US and UK, where evidence base is strongest
- The impact on wage inequality
- The impact on household income inequality and poverty
- Will discuss the impact on employment in the next session

# Minimum Wage and Wage Inequality in the US

- Clear evidence that wage inequality in bottom part of the distribution is influenced by minimum wage
- Failure to increase nominal value of the federal minimum is associated with rising wage inequality

# The Impact of US Wage Inequality



**Source:** Adapted from Table 4.41 in *The State of Working America 12th Edition*, an Economic Policy Institute book by Lawrence Mishel, Josh Bivens, Elise Gould, and Heidi Shierholz, 2012 (<http://stateofworkingamerica.org/chart/swa-wages-table-4-41-minimum-wage-impact/>) based on data from Autor, Manning and Smith (2010, Table 5)

# A Brief History of Minimum Wages in the UK

- 1909: Winston Churchill establishes Wages Councils to set minimum wage rates in certain industries
  - Perhaps not dissimilar to sectoral minima in South Africa
- 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

# The National Minimum Wage

- Single rate for all aged 21+
  - Lower rates for younger workers
  - A higher rate for 25+ from April 2016
- 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

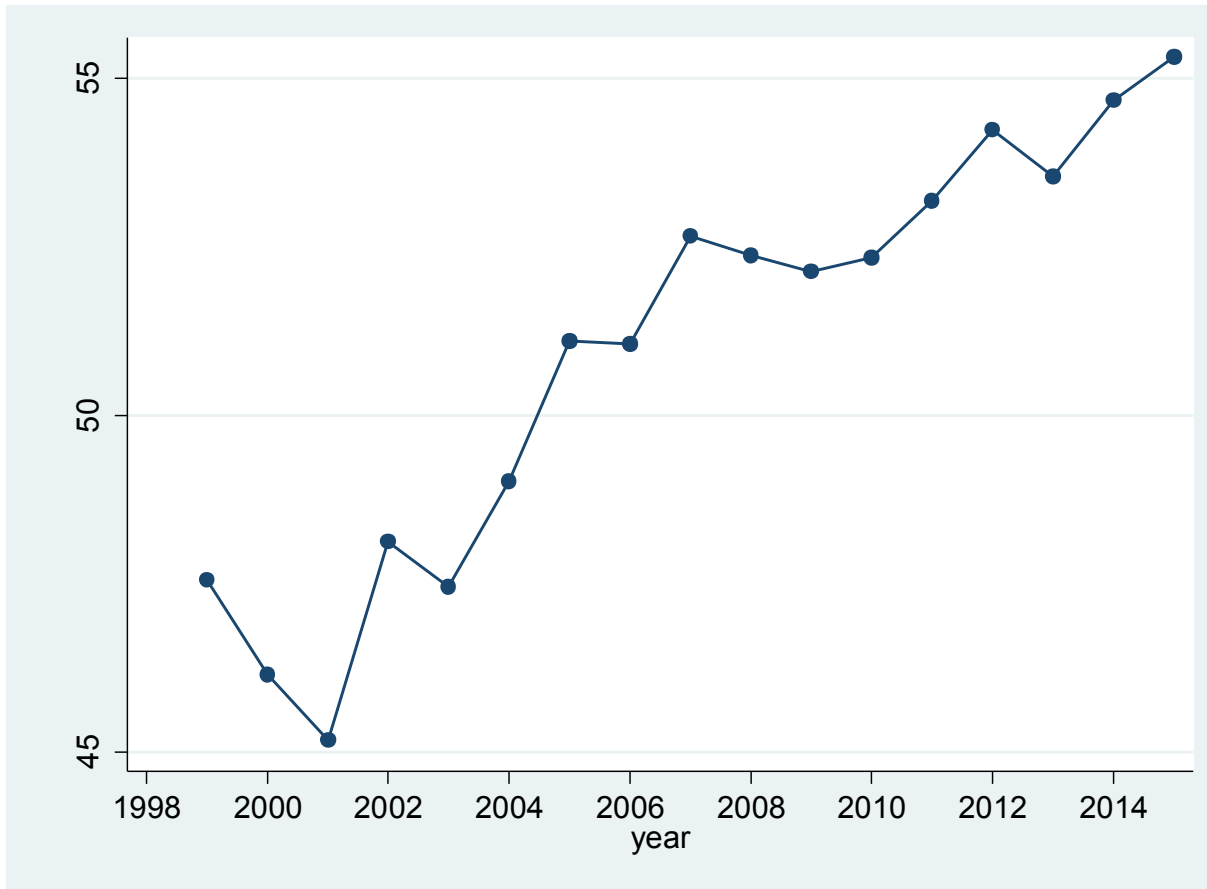


# From controversy to consensus

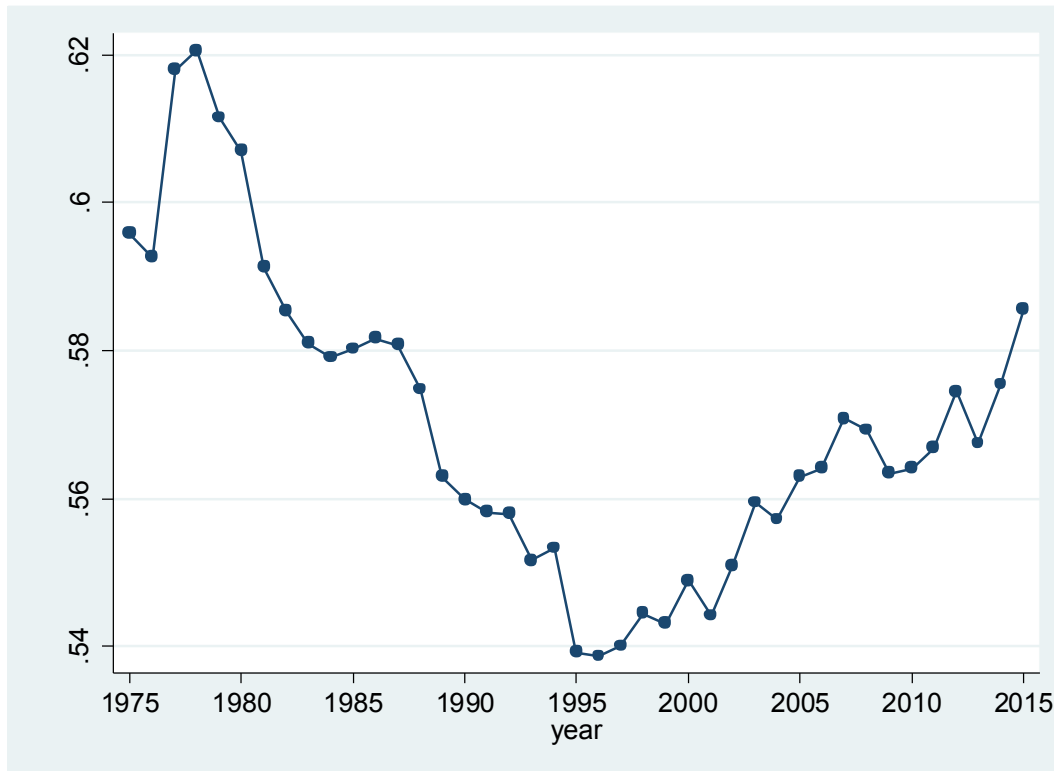
- The NMW was very controversial at first
  - Introduction strongly opposed by business and the Conservative Party
- The credibility had too be built
  - Evidence-based and cautious approach helped a lot
- But it has since become accepted by everyone
  - Voted most successful policy of last 30 years
  - Still disagreements about level but not about existence

# The Level of the NMW

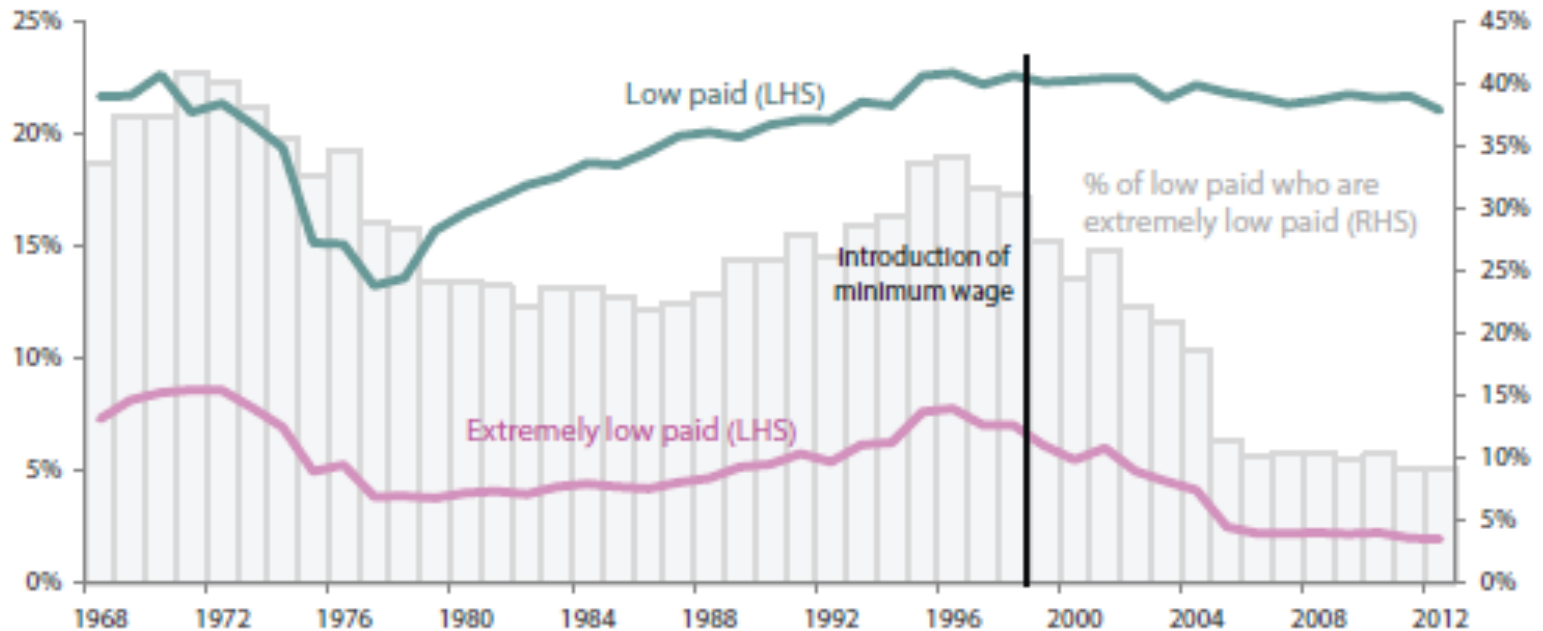
## Adult Minimum Wage as Percentage of Median Hourly Earnings



And this has had an effect on wage inequality in the bottom part of the wage distribution



But the effects do not reach very far up the distribution...



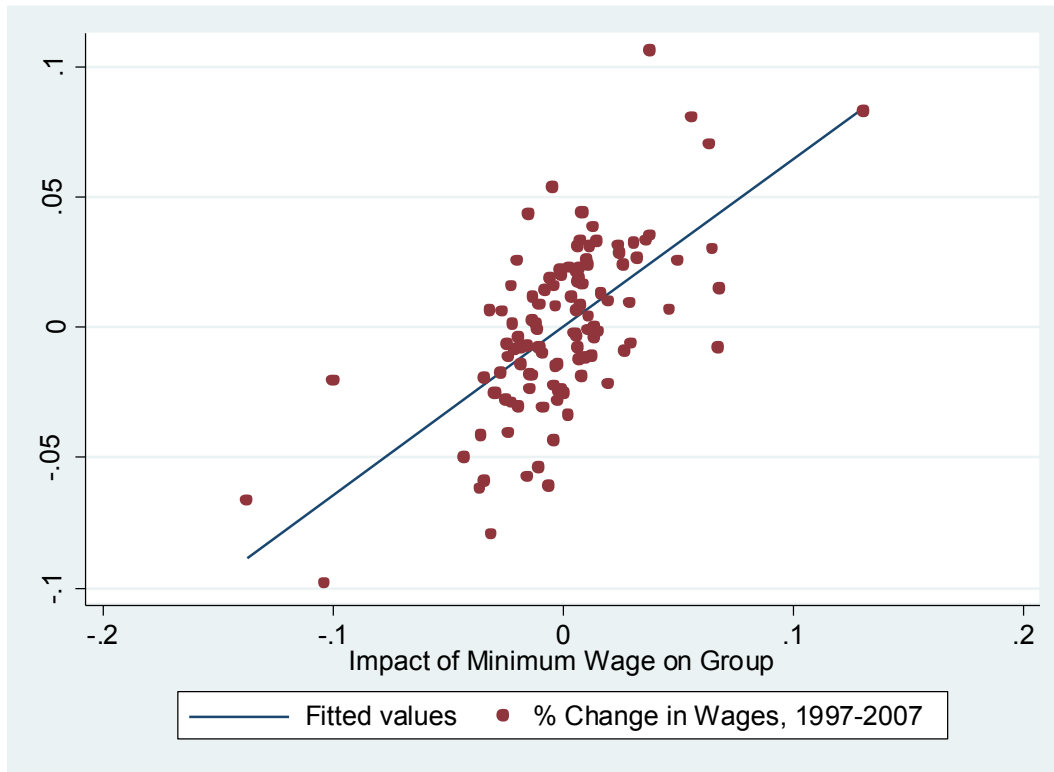
# The Minimum Wage and Inequality

- Only about 5% of workers directly receive the minimum wage
- Some evidence that the impact spills over a bit higher up the wage distribution
  - No further than 10<sup>th</sup> percentile
- But clear evidence the minimum wage has altered wage inequality
  - 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

# A Brief Summary of the Evidence

- 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

# Clear Impact on Pay of Low-Paid Workers



# Wage Inequality and Poverty

- Strong evidence that higher levels of minimum wages are associated with lower levels of wage inequality
- But a blunt instrument for addressing household poverty
- Used in conjunction with a set of other policies
  - Welfare support for those out of work
  - In-work benefits for those in low-paid work



# Why a blunt instrument for addressing 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?
- But UK has record-high employment rate so hourly earnings is a key issue

# Enforcement

- Resources spent on enforcement and penalties for non-compliance are very small
- In spite of this compliance is widely believed to be high – it polices itself
- But are concerns that non-compliance is growing
  - Stiffer penalties
  - But non-compliers also in violation of other laws/regulations

# Conclusion

- Minimum wage can be part of a strategy to reduced poverty and inequality
- But hard for minimum wage alone to address problems of poverty
- Discussion of appropriate level must be evidence-based – a truly independent Low Pay Commission helps with this
- Enforcement is important