

A Minimum Wage

Research Paper 95/7

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The Labour Party's commitment to introduce a national minimum wage in this country has generated intense political debate over the past few years. This Research Paper brings together background information on the history of minimum wage legislation (in Wages Council industries) in this country; minimum wage provision abroad; the arguments for and against a minimum wage and its likely economic impact. An Appendix summarises and quotes from some of the extensive academic research on the subject.

Julia Lourie
Business and Transport Section

House of Commons Library

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I INTRODUCTION

Over the past few years there has been intensive political debate in this country over the possible introduction of a national minimum wage. The Labour Party is committed to it. The Conservative Party is vigorously opposed to it. The Liberal Democrat Party has recently voted to support it. Until 30 August 1993, there were 24 active Wages Councils in Great Britain which set minimum wages in certain low paid industries like clothing manufacture, hotels and catering, retail and hairdressing. Before they were abolished by the *Trade Union Reform and Employment Rights Act 1993*, the minimum rates they set ranged from £2.66 to £3.20 an hour. Current proposals for a national minimum wage tend to be in the range £3 to £5.75 an hour. The Wages Councils covered about 2.5 million workers of whom nearly three-quarters were women.

The purpose of this Research Paper is to draw together background information on minimum wages in this country and abroad, and to look at some of the issues involved in the debate.

II HISTORY OF MINIMUM WAGE LEGISLATION IN BRITAIN: THE WAGES COUNCILS

Minimum wage legislation in Britain can be traced back to Winston Churchill's *Trade Boards Act 1909*. This set up Trade Boards to regulate the pay of workers in industries notorious for the employment of cheap labour. In his often-quoted speech on Second Reading of the Bill, Winston Churchill, then President of the Board of Trade, explained that the Boards were necessary to ensure that workers received a living wage in industries where the bargaining strength of employers greatly outweighed that of employees:

"It is a serious national evil that any class of His Majesty's subjects should receive less than a living wage in return for their utmost exertions. It was formerly supposed that the working of the laws of supply and demand would naturally regulate or eliminate that evil.....Where in the great staple trades in the country you have a powerful organisation on both sides, where you have responsible leaders able to bind their constituents to their decision, where that organisation is conjoint with an automatic scale of wages or arrangements for avoiding a deadlock by means of arbitration, there you have a healthy bargaining which increases the competitive power of the industry, enforces a progressive standard of life and the productive scale, and continually weaves capital and labour more closely together. But where you have what we call sweated trades, you have no organisation, no parity of bargaining, the good employer is undercut by the bad, and the bad employer is undercut by the worst; the worker, whose whole livelihood depends upon the industry, is undersold by the worker who only takes the trade up as a second string, his feebleness and ignorance generally renders the worker an easy prey to the tyranny of the masters and middle-men, only a step higher up

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the ladder than the worker, and held in the same relentless grip of forces - where those conditions prevail you have not a condition of progress, but a condition of progressive degeneration."

[HC Deb 28 April 1909, c 388]

The Boards were superseded by Wages Councils established under the *Wages Council Act 1945*. Their powers were extended by the *Employment Protection Act 1975* which also gave the Secretary of State the power to convert Councils into Statutory Joint Industry Councils (i.e. Councils with no independent members.) These Wages Councils consisted of representatives from both sides of industry, together with independent members. They had the power to set detailed minimum rates of pay, including shift premia, for different age groups and types of worker as well as complex holiday entitlements relating to length of service. At their peak, in 1953, there were 66 Wages Councils, covering about 3.5 million workers.² In March 1985, the Conservative Government, as part of its policy of deregulating the labour market, published a Consultation Paper which proposed that the Wages Councils should either be abolished altogether or radically reformed. There was considerable opposition to outright abolition, from employers as well as employees, and the Government opted for radical reform.

The *Wages Act 1986* preserved the 26 Councils then in existence but prevented any new ones from being established. It removed young workers under the age of 21 from the scope of the Wages Councils altogether and ended the Councils' power to set minimum holiday entitlements, separate pay rates for different occupations, and premium rates for unsocial hours or shift work. As a result, Wages Councils were only able to set a minimum hourly basic rate; a minimum overtime rate; the number of hours after which overtime must be paid; and a daily limit on the amount an employer could charge for any living accommodation he provided. Employers who failed to pay these rates were liable to a fine and for arrears of wages underpaid. The law was enforced by Wages Inspectors employed by the Department of Employment, but their numbers were cut during the 1980s and early 1990s and they adopted a policy of ensuring that minimum rates were paid by persuasion rather than coercion. Prosecution was rare, despite many instances of underpayment.

In December 1988, the Government once again issued a Consultation Paper which suggested that the Councils should be abolished. The response did not reveal enormous support for abolition even from employers' organisations³; and, in March 1990, Michael Howard, then Secretary of State for Employment, announced that he had decided not to proceed with abolition "for the present". It remained Conservative policy that Wages Councils should have "no permanent place in the labour market."⁴ Although the Conservative Manifesto for the

²Employment Department, "*Wages Councils: 1988 Consultation Document*", December 1988

³HC Deb 21 March 1989, cc 555-6W

⁴HC Deb 6 March 1990, c 543W

1992 Election did not mention abolition, the *Trade Union Reform and Employment Rights Bill*, published on 5 November 1992, contained legislation repealing the Wages Councils altogether. Section 35 of the Act, which abolished the Councils, came into effect on 30 August 1993. The only remaining area in which a minimum wage operates is agriculture. The Agricultural Wages Board was established under separate legislation - the *Agricultural Wages Act 1948*. This sets a minimum wage (currently £145.09 for a 39 hour week) for farmworkers. The government had considered abolishing this too, but, in the face of opposition from both sides of the agricultural industry, it backed down. William Waldegrave, Secretary of State for Agriculture, announcing this decision, said:

"It is clear from the responses to consultation that there is wide acceptance, from both sides of the agricultural industry of the present arrangements. We do not therefore currently intend to change the existing statutory framework. However, since the Government believe that statutory wage fixing arrangements can introduce inflexibilities which prevent rather than encourage job creation, we shall continue to keep the future existence of the AWB under close review."

[HC Deb 20 December 1994, c 1033W]

Since the Wages Councils were abolished, there has been growing evidence of jobs being offered below the old minimum rates and little evidence of increased employment in the deregulated industries. For example, a Low Pay Network study, *"After the Safety Net"*, analysed almost 6,000 jobs offered at job centres in the catering, retailing, clothing manufacturing and hairdressing sectors in April and May 1994. Over a third of the jobs on offer paid less than the old Wages Council rate uprated by inflation. In retailing, the figure was over 50%. The network also found a net loss of 18,000 jobs recorded in the retail and catering sectors between September 1993 and March 1994, despite the removal of minimum wages.

Further background on the Wages Councils is contained in two earlier Library Papers, *Research Note 92/75 on "Wages Councils"* and *Research Note 92/95 on the "Trade Union Reform and Employment Rights Bill 1992/3."*

III PARTY POLICIES

A Conservative Party

The Conservative Party is firmly opposed to any form of minimum wage. This is because they believe that deregulated, flexible labour markets work better and that a minimum wage would "destroy jobs". The Conservative Government abolished the Wages Councils, which set minimum wages in certain low wage industries, in 1993 [See Part II, above]. In their

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1992 Election manifesto, they said:

"Over the last 13 years, we have legislated to lift regulatory burdens from the shoulders of those who create jobs in Britain. To industry's relief, we shunned the job-destroying European Social Charter. And we reject Labour's job-destroying notion of a national minimum wage."

Labour's proposals for a national minimum wage [see below] became a major political issue in the run-up to the 1992 election. On many occasions, Conservative spokesmen argued that Labour's proposals could lead to the loss of up to 2 million jobs. For example, Michael Howard, then Secretary of State for Employment, said:

"Their most damaging policy is for a minimum wage. At the level Labour would first introduce it, a minimum wage would destroy three quarters of a million jobs - even if only half the previous level of differentials were restored - with those job losses rising to between one and a quarter and one and a half million as Labour raised the minimum wage over time....."

If Labour's union paymasters had their way, and differentials were restored in full after the introduction of a minimum wage, then job losses would soar to 1.25 million in the first instance and to 2 million as the level of the minimum was raised."

[Conservative Party Press Release, 22 April 1991, "*Michael Howard warns Labour Minimum Wage Fiasco 'could double unemployment'*"]

The methodology used in these estimates was based on research conducted by the Treasury and published in 1985 in a paper entitled "*The Relationship between Employment and Wages: Empirical Evidence for the UK.*" [See Appendix, item 1]. The same methodology was used by the Department of Employment in its note, "*Estimating the effect of a national minimum wage*" [Deposited Paper 5668, Jan 1990.] .

There is some evidence that Conservative politicians are concerned at the growth of low pay in the UK. For example, Peter Lilley, Secretary of State for Social Security, has said that "unskilled young men cannot bring home a great deal more than the level of benefit. And some unskilled young women cannot earn a great deal more in work than the benefits they would receive to enable them to bring up a child."⁵ At the same time, Lord Lawson commented, in a speech to the Social Market Foundation, that wages might be in danger of being pushed so low that they would "involve levels of pay for the least skilled that a fundamentally wealthy society would consider too low to be acceptable."⁶ However, they do

⁵Speech at a summer school in Birmingham Cathedral, reported in the *Guardian*, 21 June 1994, "Lilley lone parent row revived."

⁶Ibid

not consider a minimum wage to be the answer. Instead, they want a great improvement in education and training so that people have the skills to command higher salaries.

Michael Portillo, in a speech to the Institute of Personnel and Development's conference on 26 October 1994, expounded this argument:

" 11. But the challenge is not just to create jobs. We also want wealth and prosperity. Our objective is an economy rich enough to deliver wages high enough to:-

- sustain a good standard of living;
- pay for public services; and
- raise the quality of life.

12. There seems to be confusion on that point. Let me tell you how I see it. Low wage economies present formidable competition. Their wages are so much lower than ours that we cannot hope to compete by driving down our wage levels. We have to do something quite different. We have to climb the ladder of technology.

13. That means enhancing Britain's competitive edge. We must create products which owe more to human knowledge than to human muscle. They are likely to be the basis of our prosperity in an increasingly competitive world. Our future lies in providing goods and services which have high added value because of their technology, design or innovation.

14. Wages are important in this respect: if we pay people more than the value that they add to their business, we make our competitive position worse still. And employers will just not employ people who cost more to employ than the benefit they bring. That is why high non-wage costs of employment and minimum wages destroy jobs.

15. What we can do, as one of the world's richer nations, is increase the value that people add to their business, through education and training. Our aim is a high wage economy not a low wage economy. But high wages have to be earned. The aim must be a highly motivated workforce, where the individual is rewarded for skill and productivity."

[Dept of Employment Press Notice, 26 Oct 1994]

B Labour Party

The Labour Party's Manifesto for the 1992 Election promised:

"We will end the scandal of poverty pay and bring Britain into line with the rest of Europe by introducing a statutory minimum wage of £3.40 an hour. This is a major but long overdue reform which will benefit around four million low paid people, 80% of whom are women."

This figure was based on Labour's commitment to introduce a national minimum wage "starting at a level of 50% of median men's earnings (around £3.40 an hour in 1991/2)" and rising, "over time", to "two-thirds of the median male hourly rate".⁷ In April 1994, half median male earnings was £4.15 an hour and two-thirds amounted to £5.53.⁸ It would be possible to arrive at different figures by using alternative methodology. Since the 1992 Election, there seem to have been some attempts to drop this precise formulation.⁹ The Labour Party Conference in October 1994 passed two resolutions, one of which advocated a national minimum wage set at 50% of average male earnings (£4.05 was the figure quoted) while the other simply supported the principle of a minimum.¹⁰ Tony Blair, the party leader, said in his speech to conference:

"A minimum wage exists in every European country, in America too, for the simple reason that it makes social and economic sense. Of course the minimum wage should be set sensibly. And it will be, but there will be no retreat from its basic principle because it is right."

[Labour Party Press Release, 4 October 1994]

The party's Economic Commission is to review the whole issue during 1995. For the present, the party is committed to a minimum wage but not to a particular figure.

Although the **Commission for Social Justice**, whose report was published in October 1994, was an independent body, it was established by the late John Smith when he was leader of the Labour Party. The Commission recommended the introduction of a minimum wage of £3.50 an hour:

⁷ "Opportunity Britain. Labour's better way for the 1990's", 1991

⁸Low Pay Unit

⁹See, e.g., *Guardian*, 9 September 1994: "Secret meeting agreed to drastic cut in proposed national minimum pay. Blair abandons wages target".

¹⁰*Guardian*, 4 October 1994: " Blair backs 'sensible' minimum wage as battle rages over level"

"We firmly believe that a national hourly minimum wage is essential. Our purpose is straightforward: it is to banish exploitation in the labour market, encourage employers to invest in people and prevent taxpayers paying a large part of employers' production costs.....

There are good reasons for setting the initial rate of the minimum wage with some caution. The state of the labour market has deteriorated substantially in the last few years. There are more low paid workers and more businesses struggling to survive. Rather than risk highly publicised job losses or threats to small businesses, it would be better to start at a level which government can be confident will not have an adverse effect on employment.....Research for the Commission, conducted at the London School of Economics and based on detailed studies of the labour market effects of the Wages Councils, concluded that in today's conditions, a minimum hourly wage of up to £3.50 would have no adverse effect on overall employment."

C Liberal Democrat Party

At their party conference in September 1994, Liberal Democrats voted in favour of a modest minimum wage, set at about 35%-40% of average earnings and varying between regions. This was advocated by Baroness Williams but opposed by the party leadership who argued that such a scheme would be too prescriptive and inflexible. They would have preferred to establish a Low Pay Commission which would have the power to set minimum rates for a particular industry and investigate specific cases of exploitation.¹¹

IV MINIMUM WAGES IN OTHER COUNTRIES

Many countries in the world do make statutory provision for minimum wages, either at a national or a sectoral level.

A Europe

Within the European Union, France, Luxembourg, the Netherlands, Portugal and Spain have a statutory national minimum wage. In Belgium and Greece, the national minimum is established by collective agreement but then becomes generally binding. In Italy, Germany, Denmark, Austria, Finland and Sweden pay minima are set by legally binding agreements at industry level. In Ireland, legally binding minima are set for 15 sectors with low union density by Joint Labour Councils. In the UK, the Wages Councils used to set minimum wages in 26 low wage sectors, but these were abolished in August 1993. The only remaining sector where a minimum wage is set is agriculture. The following table, which gives an

¹¹*Financial Times*, 21 September 1994; "Leaders defeated over minimum wage". *Independent*, 30 August 1994, "Lib Dems divided over national minimum wage".

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indication of the type of minimum wage, the frequency of its uprating, its level and its coverage in 18 European countries, is taken from the *New Review of the Low Pay Unit*, Sept/Oct 1994:

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An article in *Labour Research*, October 1994, compares the level of the minimum wage (converted at purchasing power parity exchange rates) in the seven EU countries which have a national minimum. It also expresses this national minimum as a percentage of average earnings. The following table is derived from the article:

Country	Minimum Wage ¹²	Percentage of earnings ¹³
	£ per hour	%
Belgium	4.10	63
France	3.50	69
Greece	2.00	47
Luxembourg	3.80	51
Netherlands	4.20	63
Portugal	1.50	61
Spain	2.20	42

In recent recessionary times, several EU countries have tried to rein back the impact of minimum wages, chiefly by increasing it as little as possible, though none - apart from the UK - has seriously questioned its continuation. The Netherlands, for example, severed the automatic link with average earnings in 1991, then failed to award any increase in 1993. An article in *IDS European Report*¹⁴ points out that "in recessionary times, national debates have inevitably tended to focus upon the economic objectives of industrial competitiveness and pay moderation, rather than the social goals of eradicating low pay or better protecting vulnerable groups." The evidence would suggest that the minimum wage is effective in achieving its social goals. A survey for the European Commission reported in the IDS article found that the highest percentage of full-time workers earning less than 50% of median pay was to be found in the Irish Republic (10%) and the highest percentage earning less than 66% of median pay was in the UK (20%). These are the two countries without either a statutory minimum wage or legally agreed binding minima by sector.

¹²at October 1994, £ per hour in terms of purchasing power

¹³Statutory Minimum Wage as percentage of average industrial earnings of manual workers, 1992

¹⁴No 383, November 1993, "Equitable Wages and Minimum Pay Setting"

B Elsewhere

Outside the EU there are many other industrialised countries with a minimum wage. In the USA, the *Fair Labor Standards Act* of 1938 first established a national minimum wage. This is now set at \$4.25 an hour. There is no automatic uprating mechanism so that federal legislation is required each time it is increased. It was last raised in April 1991. President Clinton had intended to increase it to \$4.75, but he has not yet been able to do so. Some individual States have their own minimum wage legislation as well. Canada, Australia, New Zealand and Japan also have minimum wage systems.

Sixty-nine countries have ratified the ILO Convention No 26 on Minimum Wage Fixing Machinery. This would mean that they have some form of legislation in place. However, the degree to which it is effective varies enormously. For example, in many African countries, 80% of the economy is in the informal sector. Although there is minimum wage machinery it probably only applies to 20% of the economy and that would be mainly public bureaucracy. It is also the case that many countries which have not ratified the Convention do have minimum wage fixing machinery: the USA is an example. Reproduced below is a list of the countries which have ratified Convention No 26 taken from an ILO publication¹⁵:

¹⁵International Labour Conference 79th Session 1992, "*Minimum Wages. Wage-fixing machinery, application and supervision*", Report III (Part 4 B)

C Employment Impact

Figures given in reply to a PQ from Denis MacShane suggest that employment growth has not been impeded by the existence of a minimum wage in most leading market economies. In the decade, 1980-1990, employment grew at a 18.4% in the USA; 17.3% in Portugal; 7.3% in Spain and 3.4% in France. All these countries have a statutory minimum wage:

[HC Deb 15 Dec 1994, cc 741-742W]

According to an article in the *Financial Times*, reporting this PQ¹⁶, employment grew at a rate of only 1.5% in the UK between 1980 and 1990. However, *OECD Labour Force Statistics* give a figure of 6.5%. From these, it is possible to construct a UK line for the above table which would read as follows:

	Rate of Employment Growth			Average Unemployment Rate		
	1970-80	1980-90	1990-93	1970-80	1980-90	1990-93
UK	2.6%	6.5%	-6.9%	5.0%	10.7%	9.0%

¹⁶19 December 1994, "Figures on minimum wages and jobs released"

Phillip Oppenheim, Parliamentary Under Secretary of State at the Department of Employment, has criticised Mr McShane's interpretation of these figures in a letter to the *Financial Times*¹⁷:

" The facts are that those countries quoted and which have seen a significant growth in employment have, in the main, very different types of wage-fixing mechanisms from the sort of national minimum wage which Labour is proposing. In the US, the minimum wage is currently set at the extremely low level of \$ 4.25 per hour. Moreover, despite coming to power committed to raising the minimum wage, President Clinton has not done so, clearly because of fears about the effect on jobs. In Australia, wages are set at state level; in Japan, there are different industry rates; in both countries, the level is very low. France and Spain, which are the only EU countries with a national minimum wage of the sort Labour proposes, have significantly higher unemployment rates than the UK. It is not surprising Mr MacShane finds UK employment performance poor compared with other European countries, as he uses the wrong figure. Mr MacShane claims that employment growth for the UK was 1.5 per cent between 1980 and 1990; the actual OECD figure was 6.4 per cent (recently revised up to 6.8 per cent). When comparisons are based over the economic cycle (1979-90) - the correct way of assessing employment growth - the UK rate of job creation was faster than in France and Spain. "

V INTERNATIONAL STANDARDS

A Council of Europe "Decency Threshold"

The Council of Europe's Social Charter, in Article 4, establishes a "right to fair remuneration" and calls upon the Contracting Parties:

"to recognise the right of workers to a remuneration such as will give them and their families a decent standard of living."

[Article 4 (1)]

This right is to be achieved:

"by freely concluded collective agreements, by statutory wage-fixing machinery, or by other means appropriate to national conditions"

The Charter itself does not spell out how to calculate the level of remuneration which would

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yield a "decent standard of living", but the Council commissioned a consultant, Jean-Pierre Daloz, to produce a report, *"Methods of defining 'decent' remuneration"*, in 1977. In brief, this proposed that the "decent" wage level should be set at 68% of the average wage and that a country would comply with Article 4 (1) of the Charter if no more than 5% of the active population concerned received a wage below this level. The Committee of Independent Experts (which has the task of assessing how far the Charter's signatories comply with its terms) adopted this "decency threshold" of 68% as a working benchmark, although it recognised that other factors such as substantial social payments and family and housing subsidies, could be taken into account.

The Low Pay Unit calculate this threshold of 68% of average full-time earnings in the UK in April 1994 at £5.88 an hour. 37% of full-time workers and 76.7% of all part-time workers earned less than this.¹⁸

B European Union Opinion on an Equitable Wage

The European Union has no power to legislate in the field of wages - except in the case of equal pay. Even the Social Policy Agreement made between eleven Member States, excluding the UK, at Maastricht excludes "pay, the right of association, the right to strike or the right to impose lock-outs." [Article 2 (6)]. However, in September 1993 the European Commission adopted a non-binding *Opinion on an Equitable Wage*¹⁹. Opinions are "perhaps the least consequential of the instruments which the EEC Treaty makes available to the Commission, with less force even than Recommendations."²⁰ This Opinion states the right of all workers to an "equitable wage" which it defines as a "reward for work done which in the context of the society in which they live and work is fair and sufficient to enable them to have a decent standard of living."²¹ The Opinion does not attempt to quantify this "decent standard of living" and says that "operational definitions can best be established at national, regional or sectoral levels."²² The opinion goes on to state that Member States should take "appropriate measures to ensure that the right to an equitable wage is protected." Such measures might include "mechanisms for the establishment of negotiated minima and the strengthening of collective bargaining arrangements."²³ There is no obligation on any Member State to do anything about this Opinion.

¹⁸*New Review of the Low Pay Unit* No 30, Nov/Dec 1994

¹⁹OJC 248, 11 September 1993

²⁰*European Industrial Relations Review* 237, October 1993, "Equitable Wage Opinion"

²¹ Para 1

²² Para. 2

²³ Para. 3

C ILO Conventions

There are three International Labour Organisation Conventions on Minimum Wages:

No. 26 (1928) on the Creation of Minimum Wage-Fixing Machinery

No. 99 (1951) on Minimum Wage Fixing in Agriculture

No. 131 (1970) on Minimum Wage Fixing, with Special Reference to Developing Countries.

The UK did ratify No. 26 but denounced it in July 1985 before passing the *Wages Act* 1986 which greatly reduced the scope of the Wages Councils. The UK ratified No. 99 in June 1953 but is going to denounce it in preparation for the now deferred abolition of the Agricultural Wages Board²⁴.

Article 1(1) of Convention No. 26 provides that:

"Each Member of the International Labour Organisation which ratifies this Convention undertakes to create or maintain machinery whereby minimum rates of wages can be fixed for workers employed in certain of the trades or parts of trades (and in particular in homeworking trades) in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low."

VI ARGUMENTS FOR AND AGAINST A MINIMUM WAGE

This Part of the Research Paper summarises arguments which, for the most part, are elaborated on elsewhere in the Paper. The arguments are, of course, complex, but they can be summarised as follows:

For:

- Social Justice - it is wrong in principle that a full time employee should not be able to earn enough from his work to provide a reasonable basic standard of living.
- Protection of vulnerable workers from exploitation by employers who hope to undercut competitors.
- A minimum wage could encourage the efficient use of labour through additional training and productivity measures. Employers would have to compete on the quality

²⁴HC Deb 20 July 1994, c226W

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not the price of their labour force. Employees would be more committed if they were paid and valued more.

- Low pay often reflects an undervaluation of employees' skills.
- It would help tackle poverty, reduce dependence on social security and increase the Government's revenue from tax and national insurance contributions.
- It would particularly help low-paid women workers.

Against:

- It would lead to job losses, both directly among those now paid less than the minimum and indirectly through knock-on effects on the higher paid.
- It would lead to an erosion of differentials and so to incentives to acquire new skills.
- It takes no account of the circumstances of individual employees or employers. Companies need flexibility in their pay structures.
- It would not help the poorest groups as most of them are unemployed, retired, disabled or young.
- Many of those who benefit would be part-time married women workers in relatively well off two earner households.
- It would be inflationary as increased labour costs would feed through into prices.
- It would undermine international competitiveness.

VII ECONOMIC EFFECTS

Much of the political discussion of the minimum wage has centred on its likely economic effects - chiefly on employment, but also on inflation and the general level of wages. Fred Bayliss, in *"Making a Minimum Wage Work"* (1991) identified four main economic effects:

- the direct impact on labour costs;
- the impact of increased labour costs on prices;
- knock-on effects caused by the restoration of differentials; and
- the effect on employment.

Mr Bayliss' comments about the likely impact of a National Legal Minimum Wage (NLMW) in the four areas he identified forcefully make the point that it would affect some industries (eg retail, clothing, hotels and catering and hairdressing) much more severely than others:

Direct Impact on labour Costs

A NLMW would have a direct impact on labour costs. This would vary greatly between industries according to the numbers who had to be brought up to its level. Using the yardstick of a NLMW fixed at about half average earnings the direct effect on the labour costs of all industries and services taken together would be less than 1 per cent. But in those trades where the low paid are concentrated the increase in labour costs would be much greater - retailing 3 per cent, clothing, hotels and catering 7 per cent. Where low pay is particularly extensive the increases in labour costs would be much greater, in hairdressing, for example, it may be as much as 20 per cent.

At two-thirds of average earnings the impact of a NLMW on overall average labour costs would be over 3 per cent and in those particular industries and services mentioned in the previous paragraph it would be two or three times the effect at half average earnings (1). Some other estimates using different sources yield higher figures but the high impact in service trades and the low overall effect is not in doubt. These direct cost effects would be repeated to some degree each time the NLMW was revised and increased by more than the average of other pay movements. Of course labour costs are not the only costs, or even the most important costs, in many industries, so the effect on total costs would be much less. But in addition the knock-on effects dealt with below would cause an indirect increase in costs.

Impact on Prices

The impact of these labour cost increases on prices would be small on average but in some service trades it would be considerable. What would shopkeepers, hoteliers, publicans, restaurateurs and hairdressers do if they had to pay a NLMW which increased labour costs significantly? They could do four things, or a combination of them. They could put up prices to recoup the higher wages (which is a solution not always to be objected to since customers ought to be willing to pay prices which cover a legal minimum wage). But having put up prices they may well lose custom and have to reduce their operations and dismiss staff. They may, however, respond by putting in more capital equipment or improving management so that the productivity of their employees rises and unit costs and prices do not increase. Finally, they may take a cut in profits.

The increase in labour costs in the public sector becomes an increase in government expenditure if no steps are taken to absorb it through greater efficiency. However, few of the low paid in this sector earn significantly less than half average hourly earnings. A NLMW at that level would add slightly over 1 per cent to the pay bill in education and the NHS (estimated to be £392 million in 1986) although it would rise to 4 or 5 per cent at two-thirds average earnings.

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Impact on Differentials

The impact would depend greatly on the pay structure in the industries affected. In the service trade, where there is little structure and little in the way of collective bargaining, there would probably be few consequential pay increases. In the public sector, where the NLMW would overtake the lowest rates of pay in a closely packed wage structure controlled by collective bargaining, there would be strong pressure to restore at least part of the narrowed differentials. If the knock-on effects of the NLMW extended outside the industries in which the low paid are concentrated so that engineers, say, tried to restore their position relative to hospital workers, or if NLMW increases came to be regarded as the "going rate", then the possibility of serious inflationary pay increases would be very real. Mr Bayliss does quote the example of the French experience where their SMIC (Salaire Minimum Interprofessionnel de Croissance) has been successful at raising low wages relative to wages as a whole without knock-on effects throughout the whole pay structure.

Effect on Employment

After taking into account various levels of the likely cost and knock-on effects, the employment effect has been estimated using different models of the economy. Taking account of a number of such estimates an informed judgement is that 'no concrete answer can be given' to the question of what the employment effect would be: they suggest 'upper bounds of about 250,000 and 880,000 for the employment effect of introducing a NLMW set at half the male median wage and two thirds of the median respectively; how much less depends on the full economy-wide effects of the NLMW. It is quite probable that the effect is less than half these 'upper limits'(2).

It is clear that the reduction in employment consequential on a NLMW cannot be brushed aside. But it is also clear that the employment effect of a NLMW at any level could be reduced considerably if the reactions of employers and trade unions were on the following lines. In establishments where a NLMW has a direct impact on the pay of a significant number of employees steps should be taken to improve productivity in order to facilitate the absorption of the higher labour costs and the minimum of restoration of differentials should occur. In those industries and establishments where few or none of the employees got increases from a NMLW and there was almost no direct impact, there should be no reaction at all because no differentials in places of work had been upset.

At around half median male earnings the economic effects of a NMLW are containable if they are minimised by taking appropriate action. On the other hand, if the consequences are simply left to work themselves out they could be destructive both of the gains intended for the low paid and for employment. The cost and employment effects at two thirds median earnings (and presumably at two thirds the median male hourly rate) are significant. Even if that level is only approached over a period of years, minimising the knock-on effects may require a more concerted policy by employers and unions over several pay rounds than they are capable of sustaining.

Mr. Bayliss' conclusion that "no concrete answer can be given to the question

of what the employment effect would be" is illustrated by the wide variety of results achieved by the extensive academic research on the subject. The Appendix to this Research Paper summarises the findings of some thirty pieces of research on the possible impact of a minimum wage. Some takes the form of economic modelling [eg items 1,6,7,10,14] where much depends on the assumptions made. It is likely that economists would assume that if the price of labour rises, the demand for it would fall. Some of the research is empirical, looking at what has actually happened when minimum wages have been introduced or increased in particular industries or areas [eg items 9,12,15,17,20,31]. Others survey employers and ask them how they think they would react if a minimum wage were introduced [eg items 27,32]. The research provides comfort for almost any view! For example, the Conservative Government used the methodology used in the Treasury's 1985 study [item 1] as the basis of its claim before the 1992 election that a minimum wage could destroy 2 million jobs [see Part III] while the Low Pay Unit has used studies by Card and Katz and Krueger in the United States [items 15,17,31] and Dickens et al in the United Kingdom [see item 28] to support their view that a minimum wage could even increase employment.

Of course, much depends on the level at which a minimum wage is set. It does not require extensive academic research to conclude that a minimum wage of £20 an hour would have a devastating effect on employment and inflation, while one of £1 an hour would have no effect at all. Most of the current discussion is of levels in the £3-£5 range. Half of median male earnings is about £4.15 an hour (April 1994) while two-thirds would be about £5.53. At present about 4.6 million people earn below £4.15 an hour and 9.3 million below £5.53.

VIII LOW PAY STATISTICS

Distribution of gross hourly earnings (a)

Great Britain

April 1994

	employees earning less than:						
	£3.00	£3.50	£4.00	£4.50	£5.00	£5.50	£6.00
% of employees:							
Full-time employees:							
All	1.5	4.8	9.7	16.3	23.7	31.5	39.1
Male	1.0	3.0	6.6	12.2	18.7	25.9	33.0
Female	2.4	7.8	15.1	23.5	32.5	41.4	49.7
Manual	2.6	8.0	15.8	25.8	36.3	47.1	57.1
Non-manual	0.9	2.9	6.3	11.0	16.7	22.8	29.0
Part-time employees:							
All	8.0	26.2	42.4	55.4	65.5	73.0	78.4
Male	11.2	28.2	42.6	54.9	64.2	70.1	73.7
Female	7.6	26.0	42.3	55.4	65.7	73.3	79.1
Numbers of employees (millions):							
Full-time employees:							
All	0.2	0.7	1.5	2.5	3.6	4.7	5.9
Male	0.1	0.3	0.6	1.1	1.8	2.4	3.1
Female	0.1	0.4	0.8	1.3	1.8	2.3	2.8
Part-time employees:							
All	0.5	1.6	2.5	3.3	3.9	4.3	4.6
Male	0.1	0.3	0.5	0.6	0.7	0.8	0.8
Female	0.4	1.2	2.0	2.7	3.1	3.5	3.8
All employees:							
All	0.7	2.3	4.0	5.7	7.4	9.0	10.5
Male	0.2	0.6	1.1	1.8	2.5	3.2	3.9
Female	0.5	1.7	2.9	4.0	5.0	5.8	6.5

(a) employees on adult rates whose pay for the survey period was not affected by absence

Sources: *New Earnings Survey 1994 Employment Gazette December 1994*

Note: these figures are based on results from the New Earnings Survey. The coverage of part-time employees in this survey is not comprehensive as the survey excludes many of those whose earnings fall below the income tax threshold (£66.50 a week in the 1994 survey). In order to produce the above estimates it has been assumed that the distribution of hourly earnings for those below the threshold is the same as for those whose earnings are above the threshold ie. that their weekly earnings are below the threshold because they work a low number of hours rather than because the distribution of their hourly rates is any different.

IX FURTHER READING

1. *The New Review of the Low Pay Unit*, Nov/Dec 1994, "Whose economic upturn?"
 2. *Labour Research*, October 1994, "Minimum Wage: How Europe Copes"
 3. *The New Review of the Low Pay Unit*, Sept/Oct 1994, "Minimum Wages in Europe"
 4. "Social Justice. Strategies for National Renewal" . The Report of the Commission on Social Justice, 1994, pp 200-207 on "A National Minimum Wage"
 5. Low Pay Unit Briefing, "Why Britain Needs A Minimum Wage", June 1994
 6. *IDS European Report 383*, November 1993, "Equitable Wages and Minimum Pay Setting"
 7. International Labour Conference 79th Session 1992, "Minimum Wages. Wage-fixing machinery, application and supervision", Report III (Part 4 B)
 8. Frank Wilkinson, "Why Britain Needs A Minimum Wage", Institute of Public Policy Research, February 1992
 9. Fred Bayliss, "Making a Minimum Wage Work", Fabian Pamphlet 545, 1991
 10. Institute of Personnel Management, "Minimum Wage. An Analysis of the Issues", 1991
 11. Low Pay Unit, "Britain Can't Afford Low Pay: a programme for a national minimum wage", October 1988
- NB. The Appendix to this Research Paper summarises about 30 other studies which may be of interest.

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APPENDIX: ACADEMIC STUDIES OF THE IMPACT OF A MINIMUM WAGE ON EMPLOYMENT

On 4 November 1992, Peter Bottomley asked the Secretary of State for Employment to "list the studies or other evidence that illustrate or quantify the link asserted between pay and jobs at statutory minimum rates" [HC Deb. c298W]. The reply listed some 26 studies:

There follows a summary of the main findings of each of these studies (except that by Brown, Gilroy and Cohen) in the order in which they are listed in the reply to the PQ. In addition, short summaries of one or two other pieces of research (which, for the most part, appeared after the PQ

was answered) are included:

- Industrial Relations Service (1992). "Potential Effects of a National Minimum Wage: A Survey of 527 Employers".
- Dickens R., Gregg P., Machin S., Manning A., Wadsworth J. (1993): "Wages Councils: was there a case for abolition?"
- OECD (1994): "The OECD Job Study".
- IMF (1994): World Economic Outlook.
- Card D. and Krueger A. (1994).
- NatWest Small Business Research Trust Quarterly Survey of Small Businesses in Britain (1994).
- European Commission White Paper on "Growth, Competitiveness and Employment" (1994).

1. Her Majesty's Treasury: "The Relationship between Employment and Wages" [Jan. 1985]

The aim of this paper was to survey the empirical evidence for the UK about the relationship between employment and wages at the aggregate level. It covered two main types of evidence: econometric studies of employment functions and simulations of macro-economic models of the

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whole economy. The analysis was presented in terms of what happens when wages fall - i.e. when they are lower than they would otherwise have been, rather than absolutely lower. It was not looking specifically at the impact of a minimum wage policy.

The general conclusion was that "employment tends to be higher when real wages are lower than otherwise, assuming that labour is not in short supply".

**2. William Wells: "The relative pay and employment of young people"
Department of Employment Research Paper No. 42, Dec. 1983**

Again, this study was not specifically looking at the impact of a minimum wage but at the impact of a relative increase in the average earnings of young people on their employment. The study's findings were summarised as follows:

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3. Stephen Bazen: "On the Employment Effects of Introducing a National Minimum Wage in the UK" [British Journal of Industrial Relations, July 1990]

Bazen accepts that "if a national minimum wage were to be introduced in the UK, employment would be reduced, other things being equal". He goes on to examine the "crucial issue" of the size of the effect by looking at the economic theory, an industry-based approach and the tentative results from macroeconometric models. His conclusion is that "no concrete answer can be given":

- 4. David Forrest and S.R. Dennison: "Low Pay or No Pay? A review of the theory and practice of minimum-wage laws" [Institute of Economic Affairs Hobart Paper 101, 1984]**

David Forrest's contribution provides the review of theory and practice: S.R. Dennison's shorter piece is a critique of the Low Pay Unit. The Preface summarises Forrest's conclusions as follows:

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5. National Institute Economic Review Feb. 1992

There is no article by P. Gregg entitled "National Minimum Wage" in this issue of the National Institute Review. However, Paul Gregg did contribute to the Forecast for the UK Economy which it contains. There is a section on the possible implications of a Labour victory at the General Election and the introduction of a minimum wage in the second quarter of 1993. This finds that the immediate impact of a minimum wage would actually be to increase employment but that, in the medium term, there would be a reduction of 150,000:

- 6. Patrick Minford and Paul Ashton: "The Effects in the UK of EEC Wage Proposals in the Social Charter" [Liverpool Quarterly Economic Bulletin, Dec. 1989]**

This uses the Liverpool model of the UK economy to examine the impact of the possible introduction of a minimum wage set at the Council of Europe "decency threshold" (68% of mean earnings of all full-time workers). The article mainly discusses the effect on wages and benefits but also shows an increase of 1.4 million in unemployment after 3 years [0.5 million if the minimum wage were set at 50% of mean male earnings].

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7. UBS Phillips and Drew: Economic Briefing, June 1991

Includes UBS Phillips and Drew's assessment of the impact on the economy of a Labour victory in the General Election. They consider that the introduction of a minimum wage would be a "big blunder", leading to an increase in unemployment of 400,000 over a full Parliamentary term if set at 50% of median male earnings and 1¼ million if set at 66%:

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8. Canning D., and Tarling R: "A Report on the Department of Employment's Study `Wages

Floor in the Clothing Industry 1950-81" [Department of Applied Economics, Cambridge, 1985]

This study was critical of research by the Department of Employment which found a link between minimum wages and declining employment [see item 13, below]. Amongst other things, it found that non-wage factors were just as likely to explain the fall in employment:

9. **Craig and Wilkinson: "Pay and employment in four retail trades", Dept. of Employment Research Paper No. 51 (1986)**

This research was commissioned by the Department of Employment in April 1982 to "assist

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understanding of how the wages council system operates, particularly at the level of the individual firm, and to assist in the evaluation of general arguments about the possible relationship between statutory minimum rates, inflation and jobs of both adults and young people." It concentrated on four trades - groceries and provisions; confectioners, tobacconists and newsagents; hardware and menswear - and analysed both existing statistical data and the results of an interview survey of individual firms.

The researchers conclude that the existence of statutory minimum rates (SMRs) does not have an important independent effect on employment and that factors such as the level of trade are very much more important:

The Report also usefully summarises the ways in which SMRs might be expected both to reduce

employment (by imposing higher wages than would otherwise be paid) and to increase it (by preventing competitive wage-cutting and encouraging better utilisation of labour):

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- 10. Roger T. Kaufman: "The Effects of Statutory Minimum Rates of Pay on Employment in Great Britain" [Economic Journal, Dec. 1989]**

This is a very technical article which looks at the employment effects of minimum wages set in Wages Council industries in Great Britain. The conclusion is that every 10% increase in the minimum wage in these industries leads to a loss of employment of 0.6%:

- 11. Lund P., Morris T., Temple J., and Watson J.: "Wages and Employment in Agriculture: England and Wales, 1960-80" [Government Economic Survey Working Paper No. 52, 1982]**

This paper was commissioned by the Agricultural Wages Board for England and Wales to study "all available information concerning agricultural wages, employment and other relevant factors over, say, the past twenty years to see whether any correlations can be found between changes in the level of employment in agriculture and other factors."

Again the results are rather inconclusive with some evidence supporting a connection between higher minimum wages and declining employment and other evidence suggesting rather the opposite (eg., where the minimum wage increases as a proportion of average earnings). Other factors (eg., the stock of plant and machinery) are seen as more important in affecting the demand for labour:

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- 12. Machin S., and Manning A.: "Minimum Wages, Wage Dispersion and Employment: Evidence from the UK Wages Councils" [LSE, April 1992, revised Feb. 1993]**

This paper is critical of the use of macroeconomic modelling techniques to assess the impact of minimum wages on employment and prefers the use of microeconomic studies, specifically those looking at the effect of Wages Councils. Machin and Manning find that, if anything, the existence of minimum wages set by Wages Councils has actually increased employment:

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- 13. Morgan P., Paterson D., and Barrie R.: "Wage floors in the clothing industry 1950-81"
[Dept. of Employment Research Paper No. 52, 1986]**

This paper reported the main findings of a study which attempted to determine the effect of, inter alia, minimum wage rates as set by wages councils on employment within the clothing industry. The findings are hedged about with caveats, but do show a negative effect on employment:

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**14. Henry Neuburger: 'From the dole queue to the Sweatshop'
[Low Pay Pamphlet No. 30, 1984]**

The purpose of this pamphlet was to analyse the effects of the proposed abolition of the Wages Councils, using the Treasury's own model of the economy. It found that their abolition would have a significant effect on the earnings of some groups of wages council workers, particularly women. For instance, one-sixth of non-manual women would lose as much as 16% of their earnings. Yet the reward for these sacrifices in terms of extra jobs would be "insignificant":

- 15. Card D.: "Do minimum wages reduce employment? A case study of California 1987-89"**
[National Bureau of Economic Research Working Paper No. 3710, May 1991]

This study examined the impact of a substantial rise in California's minimum wage in July 1988. Contrary to received wisdom, this led to an increase in the employment rate of teenage workers (and a drop in their school enrolment rate):

- 16. Castillo Freeman A., and Freeman R.B.: "Minimum Wages in Puerto Rico: Textbook Case of a Wage Floor?"** [National Bureau of Economic Research Working Paper No. 3759, 1991]

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Between 1974 and 1983, US legislation compelled Puerto Rico to bring its minimum wage up to the level of the US federal minimum. Because wages in Puerto Rico were so much lower than the US minimum, the economists conducting this study expected to find a clear "textbook" impact on employment, and this is precisely what they did find:

17. Katz L., and Kruger A.: "The Effect of the New Minimum Wage Law in a Low Wage Labor Market" [Jan. 1991]

This study looked at the effect of new minimum wage legislation on fast food restaurants in Texas. The new legislation raised the hourly minimum wage from \$3.35 to \$3.80 from 1 April 1990 and permitted employers to pay a subminimum wage to teenage workers for up to 6 months. The survey found that very few employers took advantage of the subminimum wage; that a sizeable minority increased wages by more than was necessary to comply with the new minimum wage in order to preserve their internal wage hierarchy; and that the majority of firms directly affected did not attempt to offset the mandatory wage increase by cutting employment:

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18. **Neumark D., and Wascher W.: "Evidence on Employment Effects of Minimum Wages and Subminimum Wages Provisions from panel Data on State Minimum Wage Laws", National Bureau of Economic Research Working Paper No. 3859 (1991)**

The findings of this study, (which specifically catered for the fact that state minimum wages in the US are above the federal minimum wage) supported the existing consensus that "the imposition of minimum wages decreases employment opportunities for workers with wages at or near the minimum wage". Essentially, the data suggest that an increase of 10% in the minimum wage leads to a 1%-2% fall in teenage and young adult employment:

19. Report of the Minimum Wage Study Commission, May 1981

This is an extremely wide-ranging study of the operation of the minimum wage in the USA carried out by the Minimum Wages Study Commission in the late 1970's and early 1980's. The preface to the Report describes its origins and working methods:

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Chapter 2 of the main Report examines work on "The Employment and Unemployment Effects of the Minimum Wage" and points out that most work has been done on the effect of a minimum wage on teenage employment and unemployment. Whilst the minimum wage may reduce teenage employment, it may not necessarily increase teenage unemployment. At lower levels of pay, teenagers may simply withdraw from the labour market and continue to study:

Eventually, the Commission decided not to recommend a lower minimum wage for teenagers:

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- 20. Kenneth Walsh: "A comparative review of minimum wage systems" in Institute of Personnel Management: "Minimum Wage: An Analysis of the Issues" (1991)**

This study describes minimum wage policies in EC countries, Australia and the United States and looks at research into their effect on employment. It finds that what disemployment effects there are, are concentrated on young people and can, to some extent, be overcome by careful introduction of the policy:

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21. International Labour Office (ILO): "Minimum Wages, Wage-fixing machinery, application and supervision" (International Labour Conference, 1992)

This is principally a survey of minimum wage fixing machinery throughout the world, based on reports from the countries concerned and using ILO Conventions and Recommendations on Minimum Wage Fixing machinery as a peg. However, a couple of paragraphs in the "Concluding Observations" look at the impact of minimum wages on employment and conclude that an adverse impact is likely only if the minimum wage is set at too high a level:

22. OECD Economic Survey 1990/91: "France"

This is one of a regular series of surveys of the economic situation in all OECD countries. This particular survey singles out the relatively high level of the minimum wage (SMIC) as a possible explanation for high unemployment levels among the young and the unskilled:

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23. OECD Economic Survey 1988/89: "Netherlands"

The comments on the minimum wage are similar to those in the French 1990/91 survey. A relatively high minimum wage in the past was thought to have depressed labour market opportunities for the least skilled and lowest paid. It was politically difficult to reduce the relative level of the minimum wage so that other methods of reducing the cost of employing these groups, such as reduced social security contributions were being adopted:

24. OECD: "Labour Market Policies for the 1990s" (1990)

The report "provides a framework for the analysis of labour market policies in OECD countries in an international perspective. The size and nature of each country's policy effort is documented and discussed on a comparative basis. Against this background and considering the likely evolution of the socio-economic environment in the 1990s, the thrust and emphasis of future labour market policies are outlined".

The report refers, briefly, to changes in "Wage-setting machinery" but specifically states that wages and incomes policies are "not the subject of the report":

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25. Starr G.: "Minimum Wage Fixing" [ILO, 1981]

The International Labour Office (ILO) is a long time advocate of the establishment of a legally binding lower limit to wages so that all workers can be assured an adequate living wage. This substantial book (203 pages) is, primarily, an international review of minimum wage systems throughout the world, their practical difficulties and methods of overcoming them. It is concerned mainly, though not exclusively, with developing countries. The concluding chapter is a more technical discussion of the methods used to assess the macroeconomic impact of minimum wages. It identifies three main approaches: (a) the marshalling and analysis of available indicators of labour market and economic trends; (b) special surveys; and (c) formalised economic models and statistical estimation techniques. The various approaches are examined and examples given, but no assessment made of the findings of the various evaluations.

As far as the impact on employment is concerned, the examples are inconclusive with some showing a correlation between minimum wages and unemployment and others failing to do so. Nevertheless, the ILO continues to support evaluations of this kind:

The introduction to the Concluding Chapter is a useful warning on the dangers of taking too simplistic an approach to minimum wage impact studies:

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26. **Fred Bayliss: "Making a Minimum Wage Work" [Fabian Society, 1991]**

Fred Bayliss argues that a National Legal Minimum Wage (NLMW) would have to be introduced very carefully to prevent an adverse impact on employment. Again, much depends on the level at which the minimum is set. His conclusions are reproduced in Part VII of this Paper [p. 18].

27. Industrial Relations Service: 'Potential Effects of a National Minimum Wage: A Survey of 527 Employers' [IRS Pay and Benefits Bulletin 301, April 1992]

IRS conducted a major survey of the views of personnel and industrial relations specialists in 527 organisations to assess the likely pay and employment effects of a national minimum wage set at

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£3.40 as proposed by the Labour Party at that time. The main findings of the survey were:

28. **Dickens R., Gregg P., Machin S., Manning A. and Wadsworth J.: "Wages Councils: was there a case for abolition?"**
[British Journal of Industrial Relations, Dec. 1993]

This argues that a national minimum wage might actually increase employment because the productivity of workers is generally above their wage and higher wages might reduce staff turnover:

"It is reasonable to assume that employers have some discretion in setting wages; if they

reduce their wages a small amount this will not make all their workers instantaneously quit. This gives employers some market power in setting wages, and a profit-maximising employer should set wages at a level that is below the productivity of workers, and is influenced by the supply price of labour (see Machin and Manning 1992). Minimum wages now need not inevitably reduce employment as the productivity of workers is generally above their wage. Indeed, a minimum wage may increase employment because, while it is profitable for employers to cut wages and reduce labour costs, it becomes more difficult to recruit and retain workers at low wages. So, whether minimum wages reduce or increase employment must ultimately be an empirical matter, and such empirical work needs to be general enough to allow for the possibility that wage cuts may not increase employment"

"The empirical evidence is mixed.....The most recent collection of US studies....(*Industrial and Labor Relations Review*, October 1992) contained four papers on the employment effects of minimum wages. Three of these found no evidence of negative effects on employment, and in the fourth study the effects found were very weak.....The only study of the activities of Wages Councils in the 1980s and in the service sector industries of which we are aware is Machin and Manning(1992). These authors could find no evidence in the 1980s of a negative relationship between the toughness of minimum wage legislation.....and employment; if anything, there appears to be a weak positive relationship, both in competitive sectors like clothing and in non-traded goods sectors like catering and retailing."

29. OECD, "The OECD Jobs Study", 1994

This recommended policies which would increase wage and labour cost flexibility, including a re-examination of minimum wage policies:

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30. International Monetary Fund, "World Economic Outlook", October 1994

This report called on European industrial countries to lower their minimum wages and institute a wide range of other policies designed to make labour markets more flexible. The IMF argue that renewed world growth, on its own, would not be enough to tackle stubborn structural unemployment:

31. Card D., and Krueger A., of Princeton University: Research reported in Business Week; 7 February 1994

In early 1992, New Jersey raised its minimum wage from \$4.25 to \$5.05 per hour - 80 cents more than in neighbouring Pennsylvania. To assess the impact, Card and Krueger surveyed 410 fast-food restaurants in the two states both in the month before the increase and eight months later. They found that stores located in New Jersey actually increased employment by about 13% on average relative to stores in nearby eastern Pennsylvania. They argue that stores choosing to pay low wages are often plagued by high turnover and job vacancy rates. The higher minimum wage may have ameliorated such problems and led to an increase in employment.

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32. NatWest/Small Business Research Trust Quarterly Survey of Small Businesses in Britain, Vol 10, No 4, November 1994, "Minimum Wage"

The *NatWest Small Business Research Trust Quarterly Survey of Small Businesses in Britain* (last quarter 1994) surveyed 1,047 small firms. 31.1% thought a minimum wage of £4 an hour a "good idea" while 56.7% thought it a "bad idea. Not surprisingly, a larger proportion of those employing at least one person on a wage of less than £4 an hour (71.2%) thought it a bad idea than did those who had no employees on such a low wage (43.9%). Of the 500 firms who did employ someone on a wage below £4 an hour, 58.6% said they would employ fewer people if a minimum wage at this level were introduced, while 37.8% said they would not. 19.4% of firms paying below £4 an hour nevertheless thought a minimum wage a good idea. This is because they have to pay low wages in order to remain competitive. If the competition were forced to pay at least £4 an hour they would feel able to pay this rate themselves. A number of firms face competition from abroad and are worried that the imposition of a minimum wage in Britain would make them uncompetitive. Other firms were concerned that a minimum wage could cause unemployment and inflation (especially if the desire of higher paid workers to maintain differentials caused an upward shift in the whole wage structure). Several firms thought that regional rates might be more appropriate than a single national rate; some that young people should be excluded. One surprise was the number of respondents who suggested that there should be a maximum wage.

33. European Commission, "Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century", 1994

The report's recommendations for tackling the high rates of unemployment in Europe include measures to improve the flexibility of the labour market and to reduce non-wage labour costs, but they do not suggest the abandonment of minimum wage provisions:

Recent papers on related subjects have been:

Employment and training

- 94/129 The Jobseekers' Bill [Bill 5 of 1994/95]
- 94/128 Unemployment by Constituency:
November 1994
- 94/114 Employment and Training Schemes for the
Unemployed
- 94/111 Employment and Trade Union Legislation
since 1979
- 94/81 Part Time Workers: House of Lords Judgment
- 94/80 The Competitive Economy
- 94/52 The Working Time Directive
- 94/27 Compensation for Discrimination