

Paving the Way for the Minimum Wage

Research Summary

The work of the ESRC Centre for Economic Performance (CEP) helped pave the way for the UK's national minimum wage, introduced in 1999. In the early 1990s, the Centre investigated the impact of Wages Councils on employment, and following their abolition, focused on the agricultural sector, by then the only sector covered by any form of minimum wage legislation. The Centre found no evidence that the minimum wage led to large job losses within this sector.

However, if the minimum wage were raised too much, there is no doubt that employment rates would fall.

Assessing the impact of the minimum wage in 2007, the Centre found that it had raised the real and relative pay of low-wage workers, narrowed the gender pay gap and had positively influenced pay for one in ten workers.

Wage inequality has fallen more than first thought, especially as the minimum wage has risen faster than average earnings.



The Centre's work successfully challenged this view and helped transform the political controversy surrounding the minimum wage in the 1990s into a consensus across all political parties.

The CEP provided much of the evidence base for a national minimum wage, which arguably represents the Labour Government's most significant intervention in the labour market. In the early 1990s, the Centre's work was critical in supplying evidence against claims that a minimum wage would destroy up to two million jobs.

This research played a critical role informing the Low Pay Commission, set up in 1997, on the definition of the minimum wage, the appropriate level and what to do about younger workers. CEP researcher David Metcalf was one of the founding members of the Low Pay Commission and was later succeeded by Professor Stephen Machin.

Impact

CEP research promoted an evidence-based, non-ideological approach to the issue, thereby helping win over opponents such as employer groups. This came at a time when labour markets were being deregulated under the Conservative Government, based on the assumption that any measure that raised wages, must in turn reduce numbers in employment.

The minimum wage was initially set at a relatively low level of £3.60 per hour for workers over 22, reflecting a feeling that it was best to start low and evaluate its effects, with the Bank of England worried about the potential effect on inflation.

The introduction of the minimum wage raised the pay of around 1.2 million low paid workers by around 15 per cent overnight, with women (8.5 per cent of all female workers) benefitting more than men (3.2 per cent). By 2006, more than 2 million people received the minimum wage.

The Centre's research fundamentally influenced the recommendation that the minimum wage

should be increased faster than average earnings and that younger workers should be included in subsequent years.

The progressive increase in the minimum wage to £5.73 in October 2008 amounts to an increase of nearly 60 per cent in nominal terms – against a 30 per cent rise in average earnings over the period – and a rise of 20 per cent when adjusted for inflation. The minimum wage is regarded as an integral part of a wider package of welfare to work reforms.

Key Findings

- The minimum wage successfully raised wages for the poorest workers, without leading to increased job loss.
- There is only modest evidence of negative employment effects following the introduction of the minimum wage.
- There have been no obvious subsidiary effects on other wages, despite fears that better paid workers would seek similar pay increases pushing up inflation and interest rates.
- There has been a remarkable fall in wage inequality at the bottom end of the wage distribution
- Professor Alan Manning and Professor Richard Dickens are currently investigating whether the introduction of the minimum wage has some effect on the wages of workers who are paid above this level.

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