

# The Impact of Minimum Wages: Myth and Reality

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# Outline

- Brief Review of the Economics Literature
- Recent Evidence from Greece: Georgiadis et al. (2018)
- The UK Experience: The Low-Pay Commission and Relevant Evidence
- The View of International Organisations and the Key Policy Questions

# Minimum Wages in the Economics Literature

- The effects of Minimum Wages (MW) has been a controversial policy issue
- There is strong disagreement among economists, particularly on their employment effects (Neumark, 2018)
- Economic theory: impacts of MW depend on the model, i.e., perfect vs imperfect competition (Manning, 2003)
- The model of perfect competition, predicting a negative employment effect of MW, has historically dominated economic thinking in the post-war era (Stigler, 1946)

# Minimum Wages in the Economics Literature

- The consensus among economists on negative employment effects was supported by older empirical studies (Brown et al., 1982)
- Later seminal work by Card and Krueger (1995) casts doubt on this
- More recent studies seem to be in line with a small negative or no employment effect (Machin et al., 2003; Stewart, 2004; Harasztosi and Lindner, 2015)
- Latest work from the US produces mixed evidence (Neumark et al., 2014; Allegretto et al., 2017; Jardim et al., 2017)

# Evidence from Greece: Georgiadis et al., 2018

- A recent study by Georgiadis et al. (2018) examines the impact of recent changes in the MW in Greece
- We examine:
  - the 2009 and 2011 minimum wage increases
  - the 2012 decrease and introduction of a lower minimum wage for those younger than 25
  - and after 2012, look at
    - youth who become 25 years and thus eligible for the adult MW, and
    - firms with different share of employees turning 25 years

# Summary of Key Results

- Our key results suggest that minimum wages have:
  - a positive effect on the wages of low-wage workers and on average wages of low-wage firms
  - significant positive spill-over effects on individual and firm-level wages that may extend, in some cases, beyond the median wage
  - no systematic effects on employment at the individual and firm level

# 2009 and 2011 Increase: Key Results

- Results of the impact of the 2009 increase could be summarised as follows:
  - significant positive effects on individual wages of low-wage employees
  - positive wage spill-overs among relatively higher-wage employees that do not extend beyond the median
  - negative effect on the probability of remaining employed in the private sector of low-wage employees
  - no significant effect on firm average wages
  - no significant effect on firm-level employment
- Regarding the 2011 increase, we find no significant effects on individual and firm-level outcomes

# 2012 Decrease: Key Results

- Results of the impact of the 2012 decrease could be summarised as follows:
  - significant decreases in individual and firm-level wages that were larger among lower-wage employees and firms and in the longer-run
  - significant decreases in wages of “high-wage” employees and average wages of high-wage firms
  - significantly higher decreases in wages among youth in the long-run, but only among low-wage employees
  - no significant wage and employment effects across firms with different shares of youth employees,
  - but, some indication that wages may have decreased and employment have increased by more among firms with higher share of youth



# After 2012 Changes in the Effective MW

- Results of the impact of changes in the effective minimum wage at the individual and firm level after 2012 could be summarised as follows:
  - significant wage increases among youth who become eligible for the adult minimum wage that extend to “high-wage” youth employees
  - significantly lower probability of remaining employed in the private sector among youth who become eligible for the adult minimum wage
  - significantly lower average wages among firms with a higher share of youth employees
  - significantly lower employment among firms with higher share of youth employees

# The UK Experience

- In the UK, MW were since 1909 as part of the Wages Councils, but these were abolished in 1993
- A new National Minimum Wage (NMW) was introduced in 1999, under a new system coordinated by the UK Low-Pay commission
- The first evidence on the introduction of the NMW suggested that it had no effect on employment (Stewart, 2004)
- Some of the key evidence were from the UK social care sector, where it was found that, although wages were increased dramatically, there was no employment effect (Machin et al., 2003)

# The UK Experience

- The evidence from the social care sector considered puzzling and thus several studies aimed to explain these
- Draca et al. (2011) found that there was a reduction in profits
- Georgiadis (2013) found evidence of productivity improvements, consistent with Efficiency Wages theory (Shapiro and Stiglitz, 1984)
- More recent studies on impacts of MW increases commissioned by the Low-Pay Commission are in line with earlier evidence of no employment effect

# Current Policy Perspectives

- Given the evidence accumulated so far, many economists believe that the key policy question on MW should not be “What is the Employment Effect of the MW?”, but “How High the MW Can Be Raised without Having Significant Negative Employment Effects?”
- International organisations and other policy-making bodies setting MW seem to agree with this view
- The IMF recommended to the US in October 2014 that “given its current low level (compared both to U.S. history and international standards), the minimum wage should be increased”.

# Current Policy Perspectives

- A joint report from the IMF, World Bank, OECD and ILO for a G20 Conference in 2012 wrote

“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” (ILO, 2012).”

- The Irish Low Pay Commission declaration writes that its role is to

make recommendations to the Minister for (a level of) the minimum wage..... that is progressively increased to assist as many low-paid workers as is reasonably practicable without creating significant adverse consequences for employment or competitiveness.

# Final Remarks

- The Minimum Wage is neither a job killer nor a cure all policy (Manning, 2018)
- If it is set appropriately it can boost significantly the income of low-wage employees, reduce income inequality and poverty, without hurting employment of affected workers or business competitiveness
- But, the Minimum Wage alone cannot distribute the benefits of growth across the population
- This would require combining the MW with other social and redistributive policy instruments