

Institution: University of York
Unit of Assessment: 18, Economics and Econometrics
Title of case study: Mandatory and voluntary wage floors in national and local labour markets
<p>1. Summary of the impact</p> <p>The UK National Minimum Wage (NMW) is a mandatory wage floor, set annually by government following recommendations from the Low Pay Commission (LPC) that directly affect around a million low-wage workers, their families and their employers and influence the UK economy more widely. Research at York on the effects of minimum wages on the labour market outcomes of low-wage workers, particularly on hours worked, wage growth and the incentives for young people to acquire skills/education, has contributed to the LPC's evidence-base and influenced recommendations by the LPC on the NMW rates. In addition the underpinning research has informed the recent Living Wage policy debate (nationally and locally in York) and has had impact via two important York employers (City of York Council (CYC) and Joseph Rowntree Foundation/Joseph Rowntree Housing Trust (JRF/JRHT)) in relation to their deliberations on the adoption (CYC) and the benefits of adopting this voluntary wage floor within their organisations; decisions that directly affected more than 600 York-based employees in early 2013.</p>
<p>2. Underpinning research</p> <p>The research had three main themes providing policy-relevant insights on the impact of wage regulation on low wage workers and their labour market outcomes. All three provide the underpinning research to the impact at the national level through the LPC, and the first two have relevance to the Living Wage debate at both the national and local labour market level. The research, undertaken by Professor Jo Swaffield between 2000 and 2013, featuring both single and jointly authored research outputs has been funded by the ESRC and LPC. Co-authors include Professor Stewart (University of Warwick) and colleagues at IFS and the University of London (Institute of Education, Kings and Royal Holloway). Professor Swaffield has been employed full-time in the Department of Economics & Related Studies since October 2000.</p> <p>The impact of minimum wages on working hours of low-wage workers: Academic and policy discussions of the 'employment' effects of a minimum wage focus almost exclusively on whether workers will lose their job (the "extensive margin"). However as important (and arguably even more so for in-work poverty) is whether the working hours of those workers directly affected by the minimum wages alter e.g. even if employment probabilities may not. Stewart & Swaffield (2008) considered this neglected dimension, the "intensive margin". Findings showed that the introduction of the minimum wage reduced the basic hours of low-wage workers by between one and two hours per week. The effects on total paid hours were similar (indicating negligible effects on paid overtime), and lagged effects (the year after the introduction and before the first uprating) dominated the smaller and less significant initial effects.</p> <p>The impact of minimum wages on the wage growth of low-wage workers: ESRC RES-000-22-0841 and Swaffield (2013) show how the probability of low-wage employees receiving positive real wage growth has been significantly increased by the minimum wage upratings. However, whether the actual wage growth has been significantly raised or not depends on the magnitude of the minimum wage uprating considered. These findings are consistent with employers complying with the legally binding minimum wage but holding down or offsetting the wage growth that they might have awarded in periods of relatively low minimum wage upratings. This analysis has shown how the NMW has impacted on the wage growth of low-wage workers and extends initial work in Stewart & Swaffield (2002) on the immediate impact of the NMW introduction on wage levels.</p> <p>The impact of the NMW on young people's education/employment decisions: De Coulon et al (2010) estimated the impact of the October 2004 NMW extension to youths (16-17 years old) on the staying-on rates by local authority area (high-wage vs. low-wage areas), as well identifying the primary determinants of the post-compulsory schooling decision. Findings show little evidence of a negative impact of the youth minimum wage on staying-on rates, and analysis of the individual staying-on decision showed the key driver to be pupil educational attainment and parental aspirations rather than local wage rates. Crawford et al (2011) subsequently extended this work with a further LPC funded research project looking at the effects of local labour market conditions on young people's education and labour market choices and whether the reduction in the age of entitlement of the adult NMW rate (in October 2010) from 22 to 21 years of age affected the education/labour market choices of 21 year olds (compared to 20 years olds). Findings suggest there had been no adverse effect on the education or labour market choices of this group.</p>

3. References to the research

- [1] Stewart MB & Swaffield JK (2002) "Using the BHPS wave 9 additional questions to evaluate the impact of the National Minimum Wage", *Oxford Bulletin of Economics & Statistics*, 64(5), 633-652 DOI: 10.1111/1468-0084.64.s.4 Google scholar: 20 cites. Scopus: 11 cites. An earlier version appeared as a LPC Commissioned Report in 2001 (Sept 2000-Mar 2001 **£8,000**).
- [2] Stewart MB & Swaffield JK (2008) "The other margin: do minimum wages cause working hours adjustments for low-wage workers?", *Economica*, 75(297), 148-167 DOI: 10.1111/j.1468-0335.2007.00593.x Google scholar: 43 cites. Scopus: 6 cites. Earlier versions appeared as LPC Commissioned Reports in 2002 (Jan-Sept 2002 **£8,000**) and 2004 (Jan-May 2004 **£5,000**).
- [3] De Coulon A, Meschi E, Swaffield JK, Vignoles A and Wadsworth J (2010) "Minimum Wage and Staying-on Rates in Education for Teenagers", January, Final Report to the Low Pay Commission. LPC Commissioned Report February-November 2009 **£29,850** (*Available on request*)
- [4] Crawford C, Greaves E, Jin W, Swaffield JK & Vignoles A (2011) "The impact of the minimum wage regime on the labour market outcomes of young people" December, Final Report to the Low Pay Commission. LPC Commissioned Report March-October 2011 **£39,285**. (*Available on request*)
- [5] Swaffield JK (2013) "Minimum wage hikes and the wage growth of low-wage workers", *Bulletin of Economic Research*. DOI: 10.1111/boer.12018. An earlier version appeared as a LPC Commissioned Report in 2009
- [6] ESRC RES-000-22-0841 "The Wage Dynamics of Minimum Wage Workers in Britain" January 2005 - October 2007 Funded by the Economic and Social Research Council (ESRC) Small Grant Award **£44,256** Final ESRC peer review evaluation grade: *Good*

Items 1, 2 & 5 are published in peer-reviewed economics journals and items 1 & 2 were submitted to RAE2008 under UoA34 (Economics and Econometrics): 96.6% of York outputs in this UoA were rated 2* or above. Google Scholar and Scopus citation data at 26/9/13.

4. Details of the impact**4.1 Mandatory wage floors in the national labour market – the National Minimum Wage**

The Low Pay Commission (LPC) is an independent statutory non-departmental public body set up under the National Minimum Wage Act 1998. The LPC remit is "to recommend levels [to Government] for the minimum wage rates that help as many low-paid workers as possible without any significant adverse impact on employment or the economy. The advice ... will be based on the best available evidence." The LPC has an annual round of tendering for research projects with follow-up research workshops which inform their annual report. The research impact has been to provide a sustained and significant contribution to the LPC's annual recommendations to government, and identifiably so within the 2008-2013 REF2014 impact period (see sources {1}-{5} and Factual Statement 1). Findings have informed and influenced the LPC which by extension has contributed to the setting of the UK national minimum wage rates affecting in the order of 800,000-1 million UK jobs per annum or 4.2 per cent of jobs in the UK economy over the 2008-2013 period. The series of commissioned research projects since 2000 (and three since 2008), and the direct presentations of these findings to the LPC (via annual research workshops in 2008, 2009 and 2011) demonstrates the on-going engagement between Swaffield and the LPC:

"We place great importance on making evidence-based recommendations. Our evidence base consists of in-house analysis, commissioned research and independent research. Professor Joanna Swaffield has been a valuable contributor to this evidence base since the establishment of the Low Pay Commission in 1997."... "... Professor Swaffield has made an important contribution to the work of the Low Pay Commission and the findings of her research have influenced the decisions made by Commissioners in recommending the rates of the National Minimum Wage."
[Chief Economist and Deputy Secretary Low Pay Commission]

The specific impact claimed in the REF2014 period relates to three key questions facing the LPC in their recommendations on the adult and age-related (youth & development) minimum wage rates:

(1) Whether employment adjustments occur on the 'intensive margin' (working hours)? The research findings suggest that, although small in magnitude, there is some evidence of an 'employment' adjustment in response to the NMW along the 'intensive margin' (i.e. through working hours). This was an interesting result as even though we were unable to distinguish whether this was driven by the employee reducing their hours (labour supply) or employer reducing their labour demand the finding of an intensive margin adjustment was distinct from that of the "extensive"

margin. This result has particular relevance to the LPC remit to “help as many low-paid workers as possible” as if working hours decrease (as a result of the NMW) then the overall earnings effect of the NMW could be neutral or even negative. The contribution of the underpinning research was to show that there was some effect on the working hours but that this was small in magnitude:

“... they found some statistically adverse negative effects on hours over the long-run. ... However, the reduction in hours was less than the increase in the minimum wage, thereby increasing weekly pay. These findings were important in convincing Commissioners that the low paid had not suffered a reduction in weekly earnings.” “... [this research project on ‘working hours’] has had on-going value to the Commission's evidence base over the period from 2008 to present (and was referenced in the 2009, 2011, 2012 and 2013 Low Pay Commission reports). As well as establishing a methodological basis for future research, it also provided an important research finding that subsequent research has investigated and updated for more recent (recessionary) periods.” [Chief Economist and Deputy Secretary LPC]

(2) How wage growth for low-wage workers would evolve without annual or ‘real’ NMW upratings?

The research findings suggest that low-wage employers are being regulated in their wage increases by the government’s setting of the NMW (thereby highlighting the importance of the LPC recommendations for ‘real’ NMW upratings to low-wage workers). This informed the four LPC Reports over 2009-2012: *“Professor Swaffield built on her previous research to look at the impact of the minimum wage on the wage growth of low-paid employees. She found that, when the minimum wage increases were above average earnings, wage growth was raised above what it would have been without a minimum wage. However, when the minimum wage increase was smaller, employers managed to hold down wages and wage growth was less than it would have been in the absence of a minimum wage. She concluded that her results were consistent with the minimum wage regulating the annual wage growth afforded to low-paid workers. This has been a useful insight to Commissioners.” [Chief Economist and Deputy Secretary LPC]*

(3) Do minimum wages reduce staying-on rates at school/education?

The research findings suggest that: (1) young people’s education and employment decisions had not been significantly affected by the extension (in October 2004 and the large increase in October 2006) of the minimum wage rates to youth workers, which is as we would expect if primary drivers behind the decision to leave school are not local labour market wages and we concluded that future changes (of similar size) in the minimum wage were unlikely to significantly affect young people’s main choice between education and employment; and (2) the reduction in the age of entitlement to the adult NMW rate, from 22 to 21 in October 2010 had not distorted the education or labour market choices of this group (compared to 20 year olds). This informed the LPC Reports 2010 & 2012: *“This [first] finding, along with other research and evidence, gave confidence to Commissioners that they had set the 16-17 Year Old Rate appropriately.” ... “[on the second finding] This evidence was an important counterweight to the other analysis that had shown more adverse effects of the NMW on young people.” [Chief Economist and Deputy Secretary LPC]*

4.2 Informing minimum wage and living wage policy debates beyond the LPC (2008-2013)

The underpinning research has been disseminated widely via the Royal Economic Society’s Annual Conference 2009 Special Session: “Ten Years of the National Minimum Wage”, the European Association of Labour Economists (EALE) 2008 and the Work, Pensions and Labour Economics Study Group (WPEG) conference 2008 & 2011 (WPEG is sponsored by the Department for Work and Pensions (DWP) and attended by a number of key civil servants in the DWP and related government departments), and the reach of the research beyond the UK is evidenced by citations in international non-academic/government reports (see sources {6}, {7} & {8}). Recent presentations such as at the ‘Fairness at Work in Challenging Times’ Conference (Manchester Business School, September 2012) which had non-academic participants and speakers from unions and local government, and as an invited speaker at the UNISON Local Government Service Group Executive Policy Workshop (an audience of about 50 elected and official UNISON representatives across the 11 regions, November 2012) has brought the research on the ‘intensive margin’ and wage growth to a wider audience, and as part of the Living Wage debate. The relevance of the underpinning research to the current Living Wage debate is evidenced by citations in the recent Living Wage (and related) policy literature (see sources {9}, {10} & {11}) and by Swaffield acting as the academic peer reviewer of the Welsh Assembly Government’s Living Wage commissioned research project (Stage 1 2010 & Stage 2 2012).

4.3 Voluntary wage floors in local labour markets – the Living Wage (LW)

Professor Swaffield's underpinning research supported engagement and impact at the local level via CYC and JRF/JRHT. Swaffield's CYC commissioned report discussing wage growth/spillovers within CYC's internal wage distribution, potential intensive margin adjustments and other considerations [Swaffield JK (2012) "City of York Council and the Living Wage: Issues for consideration in adopting a Living Wage Policy", February, Report to City of York Council] supported through the University of York's Strategic Initiative Fund (SIF) £2,300 September 2011-July 2012, directly informed CYC's proposal for the implementation of the Living Wage Supplement in April 2013. A wage policy that has affected slightly more than 7% of the workforce of the largest employer in York. This impact and engagement was supported through meetings at CYC in 2012 with the Chief Executive and her senior team and a Cabinet Briefing on 27th March 2012:

"...[Swaffield's] work in relation to our preparation and final decisions, into adopting the Living Wage, initially as a non contractual supplement, have directly benefitted over 500 staff within the workforces of the council and York Schools from April 2013"

[Chief Executive, City of York Council]

Engagement with JRF/JRHT Directors (June 20th 2012 and subsequent meetings) lead to Swaffield and University of York colleagues (Professor Tunstall, Dr Rugg & Professor Bradshaw) being commissioned to undertake a "Pre Living Wage Survey" of the household resources, working time, and time constraints/preferences of a sample of JRF/JRHT staff that were to be directly affected by the LW implementation in January 2013 (about 100 or 10% of the JRF/JRHT workforce). The preliminary research report was submitted to JRF/JRHT in June 2013:

"...The Pre Living Wage Survey has already proved useful to our organisation in implementing the Living Wage policy. ... It also helped to confirm the executive's understanding of the significance to the lowest and low paid staff of a major Pay and Benefits Review which had been the first step in our journey as an employer to implementing the Living Wage for all our staff" **[Director of Policy and Research, JRF and Director of Central Services, JRF/JRHT].**

5. Sources to corroborate the impact

- {1} Low Pay Commission, (2009). 'The National Minimum Wage', Low Pay Commission Report. May, HMSO. References underpinning research [1], [2] and an output from [6]
- {2} Low Pay Commission, (2010). 'The National Minimum Wage', Low Pay Commission Report, March, Cm 7823, HMSO. References [3], [5] and an output from [6]
- {3} Low Pay Commission, (2011). 'The National Minimum Wage', Low Pay Commission Report, April, Cm 8023, HMSO. References [2] and [5]
- {4} Low Pay Commission, (2012). 'The National Minimum Wage', Low Pay Commission Report, March, Cm 8302, HMSO. References [2], [3], [4] and [5]
- {5} Low Pay Commission, (2013). 'The National Minimum Wage', Low Pay Commission Report, April, Cm 8565, HMSO. References [2]
- {6} Labour and Immigration Research Centre. Employers' perspectives part two: the minimum wage system. Wellington, NZ: Ministry of Business, Innovation and Employment; 2012. References [2]
- {7} Report of the Provisional Minimum Wage Commission, October 2010, Hong Kong. References [1], [2] and [5]
- {8} Minimum Wage Commission. 2012 Report of the Minimum Wage Commission. Hong Kong: Minimum Wage Commission; 2012. References [1], [2] and [5]
- {9} Lawton K and Pennycook M. Beyond the bottom line: the challenges and opportunities of a living wage. London: IPPR, Resolution Foundation; 2013. References [2]
- {10} Commission on Living Standards. Gaining from growth: the final report of the Commission on Living Standards. London: Resolution Foundation; 2012. References [5]
- {11} Marsh R, Murphy P, Blackaby D, O'Leary N and Jones M (2010) "Living Wage in Wales: Exploratory Study", A final report for the Welsh Assembly Government. References [2]
- {12} Chief Economist and Deputy Secretary, Low Pay Commission, London, UK. [Factual Statement 1]
- {13} Chief Executive, City of York Council, York, UK. [Factual Statement 2]
- {14} Director of Policy and Research, Joseph Rowntree Foundation and Director of Central Services, Joseph Rowntree Foundation/Joseph Rowntree Trust, York, UK. [Factual Statement 3]
- {15} Head of Economic research, Welsh Government