

The triple risk of raising the US and UK minimum wage

Politicians are blundering into territory that has proved best left to the technocrats



In the UK, increases in the minimum wage have eaten into the problem of low pay with no apparent impact on employment © PA

You can have too much of a good thing. Somebody should mention this to Sajid Javid, the UK's new chancellor of the exchequer. This week he announced an [increase in the minimum wage](#) to two-thirds of the median wage, bringing it to around £10.50 per hour.

His plans are to come to fruition in 2024, assuming there are no unforeseen events in British politics in the interim. The US House of Representatives has the same deadline in mind for a plan to raise the federal minimum wage from \$7.25 to \$15. After the 2020 election, they may get their way.

I fear that we are creeping towards a serious mistake — maybe not now, but soon. And it isn't too late to correct it.

There are three elements to the mistake. The first is the scale of the changes afoot. When the minimum wage was first introduced in the UK in the late 1990s, only a few hundred thousand workers were paid it. Last year, 2m workers received the minimum wage. And according to the Resolution Foundation, a think-tank that has been strongly supportive of increases in the minimum wage, if it had been at two-thirds of median income last year, nearly [5m workers](#) would have been covered — rather than 2m. Mr Javid's proposal is a dramatic expansion in the number of people whose wages are set by the government rather than by supply and demand. The proposals in the US are even more seismic. This is a bigger idea than most people realise; let us hope it is also a good one.

The second element of the mistake is to politicise the minimum wage. That is old news in the US, where it see-saws [up and down](#) according to the whims of Congress. Over the decades it has been as low as \$4.17 and as high as \$11.55 in today's money. The last sharp increase was in 2007-2009 — that is, in the teeth of the great recession.

Most countries use a formula or a technocratic committee to set the minimum wage. The UK was among them, until 2015, when one of Mr Javid's predecessors, George Osborne, decided there might be some fleeting political advantage in sidelining the committee and claiming credit for raising the minimum wage. Mr Javid has done likewise. British politics, after all, has had enough of experts.

This is unwise because the judgment of where to set the minimum wage is essentially a technocratic one. There is a [trade-off](#). When we forbid an employer to pay less, we hope that low-paid workers will get a pay rise, but fear that they will simply get the sack. The trade-off requires evidence to assess.

What's more, the trade-off is asymmetric. Any rise in the minimum wage earns immediate praise, while the jobs lost are lost gradually, as firms ponder new hires or buy labour-saving machines. When benefits are immediate and costs are delayed and hidden, it is best for everyone's sake to delegate the decision to someone who isn't running for re-election. Nor is it easy to undo a mistake. Once a minimum wage rises too far, and the new machine is installed or the factory is moved offshore, reversing the policy will not easily bring the old jobs back.

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The third element of this potential mistake is the rebranding of the minimum wage as a [“national living wage”](#). This is a serious conceptual error. A minimum wage should be set with reference to the trade-off between better pay and fewer jobs. That is true whether it is half what anyone could

live on, or 10 times as much.

I'm all in favour of everyone having enough income to live on — and in a rich country such as the UK or the US, [“enough to live on”](#) should mean much more than just food, clothes and shelter. But if a decent living wage is higher than a minimum wage that would destroy jobs by the million, that is not a problem that minimum-wage legislation can solve.

Instead, it requires the government to provide some kind of basic income or tax credit. Mr Osborne's rebranding of the minimum wage was coupled with reductions in tax credits; it was the perfect smokescreen. In the longer term, a minimum wage needs to be bolstered by investment in education, infrastructure and other productivity measures that allow every worker a chance to earn a good wage. If workers don't have an environment in which they can be productive, higher pay cannot simply be wished into existence.

I don't mean to strike a tone that is too apocalyptic. In the UK, increases

in the minimum wage have eaten into the problem of low pay with no apparent impact on employment and only a small sign of an impact on hours worked. The international [evidence is mixed](#): on balance it suggests that minimum wages can and do destroy jobs for the low-skilled, but perhaps not as dramatically as we economists once feared. It's possible, but not certain, that further rises will bring further benefits.

Yet it is dangerous to view the minimum wage as a free lunch, something to be dished out by politicians without pondering either the evidence or the risks. It is more like a strong medicine with serious side effects. It should be prescribed with caution and under expert supervision — not mixed with sugar and downed in one gulp.

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