

London should have a separate, higher minimum wage

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*Over the last decade and a half, the difference in pay between the lowest paid decile of workers in London with that of the rest of the country has shrunk. This means we should consider introducing a higher minimum wage in London, argues **Kitty Ussher**. Not only will this not jeopardise jobs in the Capital, it would also benefit the Treasury and those in the hardest situations.*



With the political debate now firmly in the contested territory of cost of living, politicians are falling over themselves to show that they are in favour of raising wages for the very lowest paid. We have seen the unusual spectacle of a government department making representations to the Low Pay Commission as to the future level of the minimum wage, despite the existence of national legislation to enshrine the same body's operational independence from government.

But one item missing from the discussion is the potential for having a different level of the minimum wage in different areas. In general this is probably not a very good idea. But there is something funny going on when you look at what is happening at the bottom of the labour market in London compared to other parts of the UK that does deserve investigation.

Fifteen years ago, when the national minimum wage was first introduced, the pay of the bottom ten per cent of workers was over a quarter higher in London than the UK average (proof if any were needed that the London economy is structurally a different beast to the rest of the UK). Now, that differential has roughly halved. Good for equality, you might say, but why has this happened?

Conventional economic theory explains that in the long-run wages are linked to productivity (at least, in the absence of exploitation, they should be.) So a potential explanation for the narrowing of the differential between low paid workers in London and elsewhere is that is that the low paid workers outside London were first of all, significantly less efficient, and secondly have since had a huge surge in the productivity – and so the value – of their work.

Now, I'm not denying that the country's care assistants, hairdressers, cleaners, bar staff, waitresses, teaching assistants, security guards and check-out operatives work extremely hard and often in difficult circumstances, but it is hard to see that there is huge scope in these people-based jobs to experience that type of productivity difference in one part of the country over another, far less that one should improve so markedly over another. And in fact, over the same period, the overall increase in output per worker has risen far faster in London than elsewhere due to the relative concentration of financial and business services – which would suggest that if anything the trend should be the opposite, at least at the average.

Perhaps the solution lies instead in London's traditionally higher levels of unemployment? Are there simply more people available to work at lower wages in London, causing supply and demand to push wage rates down? This might be a valid argument if wages were lower in London in absolute terms, but in fact they have continued to rise over the same period. Pay at the tenth percentile was £7.29 in April 2012 in London up from £4.77 in April 1997; for the UK as a whole it was £6.46 up from £3.81.

The answer becomes clearer when we overlay what the minimum wage has been doing at the same time. What appears to have happened is the minimum wage, introduced nationally in 1999 at a rate of £3.60 an hour, has progressively lifted the pay of the lowest paid outside London. However because the market rate for low paid work was already higher in London it hasn't made much of a difference in the capital: in 2012 for example the minimum wage covered four per cent of workers over 21 nationally but only two per cent in London. This is a policy opportunity. It means that it is possible to raise the minimum wage in London without either job losses, or having to lower it elsewhere. London employers will respond in the same way that others have already done, which the

evidence shows has not jeopardised jobs.

In a recent research project for the Centre for London think-tank, we estimated that a London-wide minimum wage could be introduced at a level of £6.75 now and be economically equivalent – that is, have the same impact on low paid sectors – to the current UK-wide minimum wage of £6.31. This would increase the income from employment for around 175,000 London workers by up to £800 a year. The exchequer would benefit from increased payroll taxes and reductions in in-work benefit payments of around £61m.

This estimate was obtained by looking at where the national minimum wage impacted on the median wage for each of the 84 4-digit SOC code occupation sectors that the Low Pay Commission themselves define as making up the low pay sector of Britain, and then calculating what level a London minimum wage would need to be at to have the same impact on the same low paid sectors in London. We then took a weighted average to account for the different sizes of these sectors to arrive at the final estimate.

Over time, once the response of the London economy is better understood, then it might be possible to have a differential between the two rates of around 20 per cent, equivalent to a London minimum wage of £7.57 in today's prices, because that's the difference that existed between low pay London and the UK average when a minimum wage was first introduced.

Introducing a higher London minimum wage does not imply that the national minimum wage for other parts of the country would need to fall. The data shows that the national minimum wage is already being set with little reference to London. This means that where low-paid workers in the rest of the country have benefited from its introduction, those in London have not. Quite simply there is room for London to catch up.

As the London mayoral elections veer into sight therefore, with cost of living still at the forefront of people's minds, we may find that some mayoral candidates might start calling for the 1998 Minimum Wage Act be amended to give the Low Pay Commission responsibility for additionally recommending a rate for a London minimum wage, with democratic accountability perhaps resting with the Mayor of London. There seems little to be lost from such a change, and a little bit to be gained from people facing the hardest situations.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting. Home page image credit: Wisconsin Jobs Now.

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Kitty Ussher is an economist and former Treasury minister who now runs the research company Tooley Street Research. Her pamphlet [London Rising: the case for a London Minimum Wage](#) is available to download.

