

How Do We Make Minimum Wages Effective?

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It has long been evident that the unrestricted operation of markets does not necessarily provide workers with wages sufficient to provide socially acceptable standards of living. The extreme poverty associated with unregulated low pay can have serious adverse social consequences. It can affect health, anti-social behaviour, and children's life chances. In the late 19th century, governments in New Zealand and Australia pioneered the introduction of legally enforceable minimum wages to deal with this problem. Many countries were to follow their example. Minimum wages as a major instrument of policy were generally eclipsed during the mid-20th century by the growth of collective bargaining. But the more recent collapse of collective bargaining outside the public sector in most developed countries has reversed this. Statutory minimum wages are once again a central policy issue. The challenge is how to make them effective. This chapter discusses why this has occurred and some of the necessary conditions for them to be effective, drawing on the British experience of introducing its first National Minimum Wage in 1999 (Brown, 2009).

The collapse of collective bargaining

For much of the 20th century, pressure from trade unions pushed up the wages of workers in developed countries. It was not that the workforces in all sectors were organised by trade unions. Far from it. But some of the most profitable sectors were organised, including those associated with the rapid increase in labour productivity that accompanies technological advance. The markets for most products are imperfect, and this is especially true for those benefiting from the faster technical progress. Imperfect competition is associated with exceptional profitability. In the 20th century highly profitable sectors attracted trade union organisation, which went on to win a share of these profits for their members. Collective bargaining also helped to spread

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defined labour standards against which to benchmark employers. Central to these is the national statutory minimum wage. Without an internationally comprehensive system of national minimum wages, set at levels that make a real difference in protecting the weak, the scope for protecting labour standards in individual countries will be constrained.

In a world where markets are losing their geographical boundaries and traditional collective bargaining is losing its bite, the significance of minimum wages for policy will grow. They are necessary, if not sufficient, to protect weak workers and good employers. But to be well-founded they need to be independent of government, politically engaged with the low payers and the low paid, well-informed on the labour market, active in research, and supported by strong enforcement. Those developing them will be well aware that there are severe social costs if minimum wages become ineffective.

References

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