



Taking Account of the Politics of Minimum Wages

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What I'll attempt to do today.

- Motivational musings: Why is minimum wage policy a hot topic?
- Some selections from the political economy literature
 - Its not just the passions, but the outcomes too.
- Propose some tactics to help 'inoculate' your dialogue from politics
- Argue for changes in our business processes to better capture politics

Why are political pressures for minimum wage increases growing?

- Availability and exploitation of administrative data show extent of income and wealth inequality (Piketty and Saez, 2003; Atkinson, et al, 2011)
 - Analysis of tax return data (*Top Incomes Database*) removes a veil.
 - Pre-tax and post-tax income inequality is greater than previously thought and growing.
- High levels of inequality (a la US, Brazil, Chile, Mexico, Indonesia) expand the MW constituency: middle class, 'mean voter' issue.
- Years of sustained, rapid growth fueled by China's demand for commodities.
 - Political pressure to raise wage floors typically arise during booms.
 - Abundant fiscal resources motivate politically polarizing issues.
 - Firms in the commodities (particularly extractives) sector are more likely to wield monopsony power.
 - Exemplify the 'company town' case.

The politics matter, whether we like it or not.

- For the US, Cox and Oaxaca (1982) show that MW is determined by extent of worker and employer organization and pressure on legislators.
- Sobel (1999) finds that path of MW level follows prediction of an interest group model rather than that required to meet policy objectives.
- Neumark and Wascher (2008) show persistent political popularity of MW policies despite evidence of MW not meeting policy objectives.
- Peters (2009) shows that decisions on whether to raise MW, and what the rate should be...
 - “...have very limited economic bases, and instead rely heavily on political bases, the most important of which is political ideology...”
 - “... economic indicators are conspicuously insignificant when it comes to determining the actual minimum wage rate.”

Why?

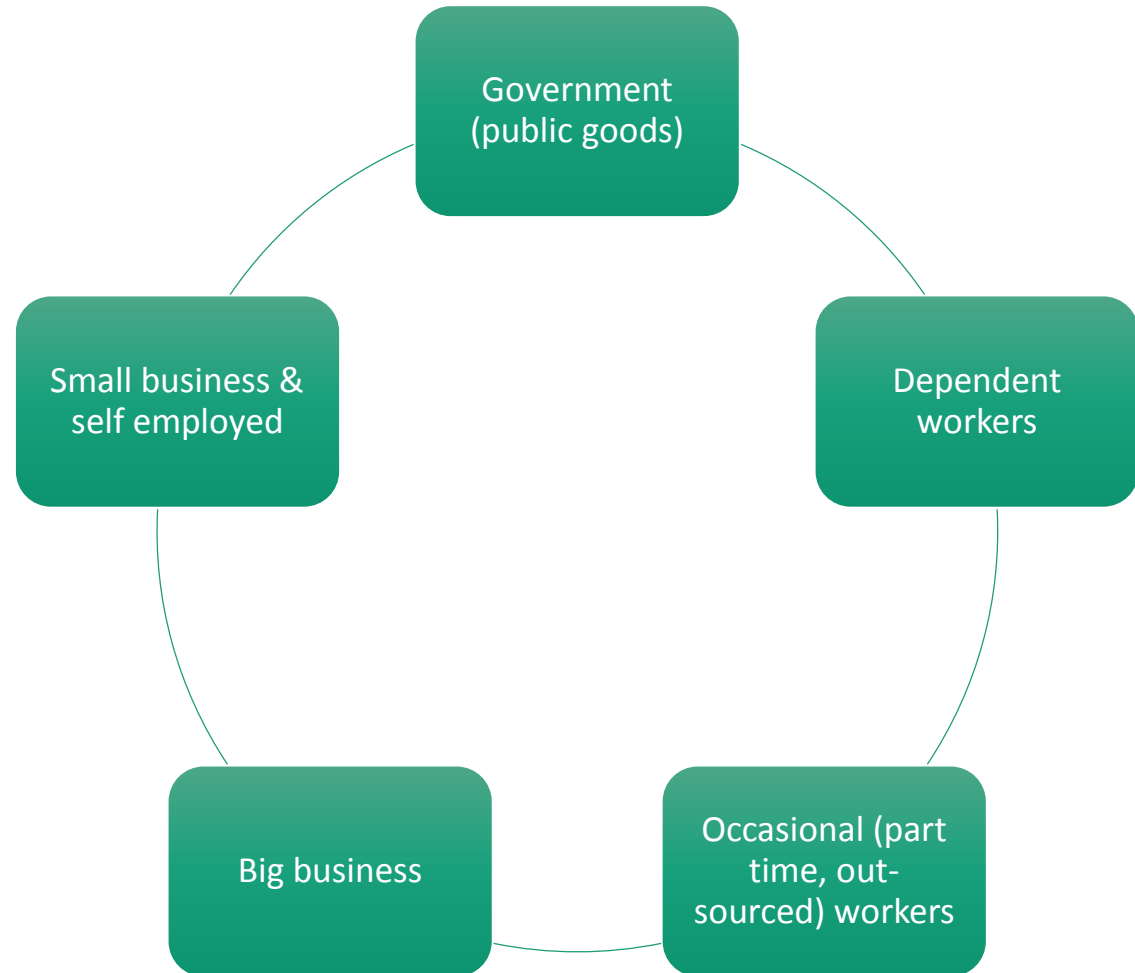
- Normative views of ‘social injustice’ of in-work poverty are widely held and strongly felt.
 - “Effort *should be* rewarded”; “toil *should* lead to advancement.”
- History: Memories of exploitation are still fresh, and compromise is perceived as ‘unilateral disarmament’ (Manning 2008, Graham and Wilson, 1990 & 2014)
- There is a lot more at stake than just workers’ take-home pay.
 - Foundations of union power (Indonesia’s cost of living index)
 - Indexation: ‘ripple effects’
 - Mexico – ‘multas’
 - Brazil – salaries, pensions, transfers

Some tactics to help 'inoculate' the dialogue.

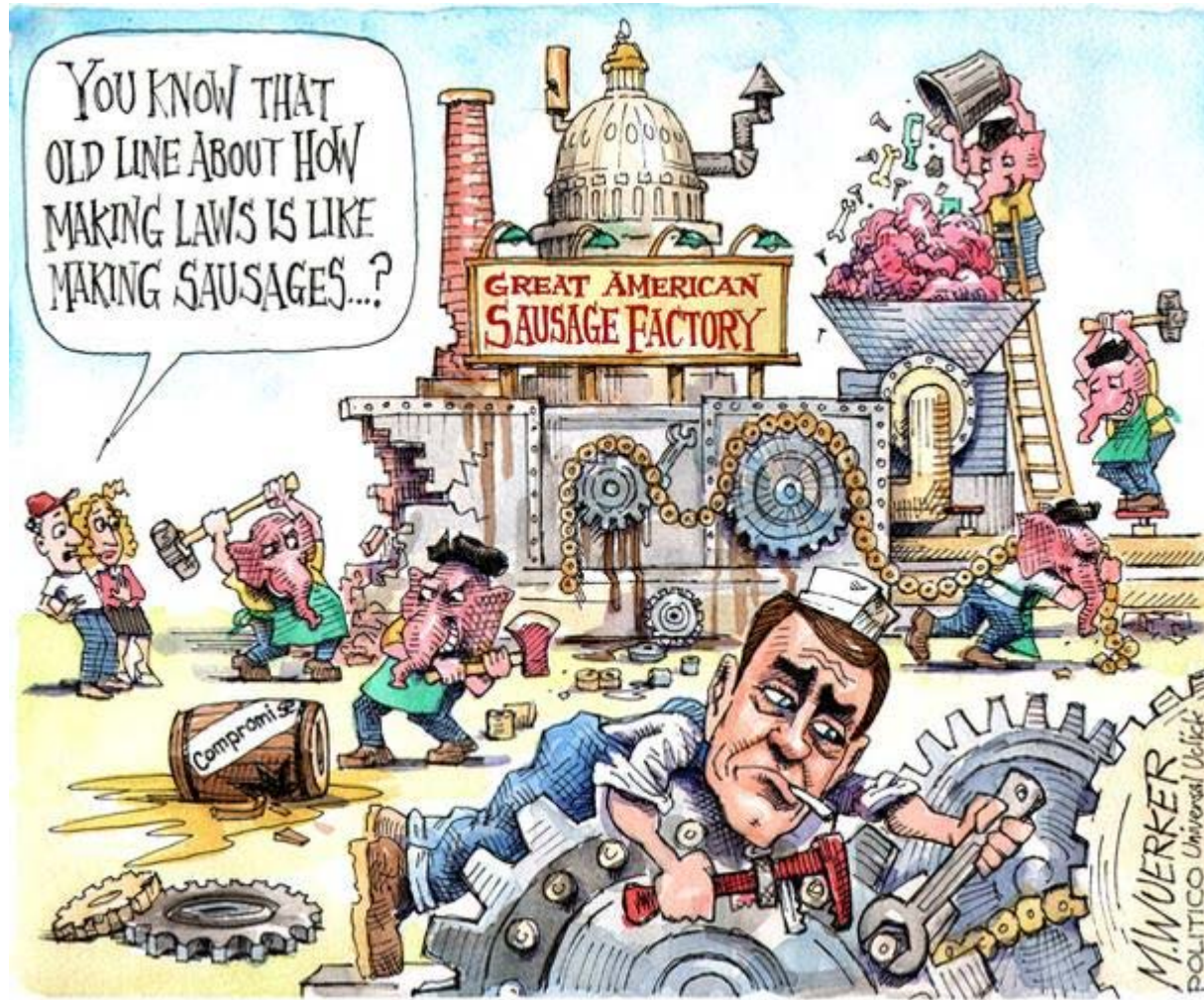
- Be aware of perceptions and (early on) acknowledge legitimacy of MW as a policy instrument. It's not "whether", but "how".
- Reframing the discussion (as suggested by Andrea and Piotr yesterday)
- Start and stick to 'first principles'. What is the public policy purpose of a statutory floor on wages? Unequal power resulting in 'unfair' distribution of marginal productivity.
 - MW is just one of several 'tools' in the social policy 'tool box' ("when you're holding a hammer, everything can start to look like a nail")
 - Solutions to core social problems may not be best solved by factor market intervention. Poverty? Targeted transfers; Poverty in work? Tax credits; Inequality? Tax and redistribution system.
- Explore alternatives: cooperatives; shared profit plans.
- Create 'safe spaces'. Convene stakeholders behind closed doors, and resist the pressure to go public (see next slide)
- Keep the 'entire package' on the table for discussion: 'grand bargains' can emerge

What stakeholders? Reach beyond 'tripartite'. You need at least five parties.

- Tripartite dialogue has been showing its age, but is 'totemic'.
- Challenged by the 'mega trends' in HICs; always of questionable relevance in MICs and LICs.
- Number of parties has be manageable.



Implications for our operating model? Understand how the 'sausage factory' works.



M. Wuerker, Great American Sausage Factory

- WBG is “non political”, but we need to understand how the policy making process works.
- Who are the parties and what are their interests?
- At what points in the process do they exert influence, and how?
- At what points do we add value (or do damage)?
- The analytical resources are within reach (CCT discussion in Brazil and Philippines), but we need to ‘slow down’.

References

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