

Spotlight on fair wages: Landmark study puts fair wages firmly in the spotlight

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Aligning minimum wages with fair ('living') wages could generate further positive productivity effects and slash the number of working poor, Australian and British researchers have found.

A new study challenges the common industry position that introducing a national living wage in excess of [minimum wage](#) levels would result in an excessive cost burden, significant job losses and no guarantee of future productivity growth.

One of the lead authors Professor Thomas Lange, Associate Dean of Research at Australian Catholic University's Faculty of Law and Business, and counterparts at Middlesex University London and Lincoln University counter this claim, demonstrating that including incentives and behavioural effects to bring minimum and fair ('living') wages into line can have a positive impact on productivity.

Published on Monday 23 May in the *British Journal of Management*, the study presents robust empirical evidence that the introduction of the national minimum wage in the UK has improved productivity through behavioural incentive effects.

It shows that the impact will be stronger in service sectors where labour input is relatively important and in larger organisations where wage differentials are usually greater.

The study points to the scope for further positive productivity effects if

minimum wages were raised to meet fair ('living') wage levels, allied to other management motivational activities.

Professor Lange said the analysis showed that the introduction of the living wage in the UK led to improvements in total factor productivity in all low-paying sectors.

"Our results support suggestions that public policy has not fully realised the potential benefits of a minimum wage. This argument may also apply to the 'living wage' in that managers who are focused on cost-reduction strategies may not grasp potential productivity benefits."

"If individuals perceive their wages to be below their felt-fair level, they will reciprocate with reduced effort. Productivity will remain low as a consequence. Low wage, cost-reduction strategies are counter-productive if discernible productivity growth and a truly innovative economy is the ultimate goal."

Entitled 'The UK national minimum wage's impact on productivity', this is the first study of its kind that provides robust empirical evidence in support of minimum wage-induced [productivity](#) enhancements and embraces the introduction of a National Living Wage in April.

The UK National Living Wage is £7.20 an hour (\$A13.58). Paid to all workers over the age of 25, it will rise to £9 (\$A16.98) an hour by 2020. At the time of the announcement (July 2015), the National Minimum Wage was set at £6.50 (\$A12.26) an hour.

Minimum wages in Australia are \$17.29 per hour or \$656.90 per 38 hour per week before tax.

Provided by Australian Catholic University

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