

# The Telegraph

## There's still time to learn from disastrous result to Seattle's minimum wage gamble

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When you see a cross-party consensus in UK politics, it's time to worry. Whether it's the period of post-war demand management, the Iraq war, or the pre-financial crisis commitment to "share the proceeds of growth" through high government spending, bipartisan agreement tends to end in tears. So watch out for the next potential area of shared failure: the current arms race for raising the minimum wage.

George Osborne, the former Conservative Chancellor, overhauled the whole framework of minimum wage setting in the 2015 Budget. Previously set cautiously by the Low Pay Commission to avoid increasing unemployment, Mr Osborne politicised the wage and divorced its setting from economic conditions.

His government introduced a "national living wage" for over-25s, ramping up the pay rate from £6.50 in 2014 to £7.50 today with further increases to £8.75 by 2020. From then, it will be arbitrarily fixed at 60pc of median hourly earnings. Not to be outdone, Jeremy Corbyn, the Labour leader, now demands a "real" living wage of £10 per hour applied to anyone over the age of 16.

Many of us warned of the costs associated with this policy shift. Despite the impression given by politicians and commentators, a preponderance of academic evidence showed that minimum wage hikes led to job losses and, crucially, that the level of the wage mattered.

The higher it was set, the more deleterious the effects would be. The Office for Budget Responsibility forecast 60,000 fewer jobs by 2020 under the policy. Worse, we said that the politicisation of pay would lead to a resistance to reform even if future adverse consequences were identified.

Fresh evidence from the United States city of Seattle shows exactly what we feared. There, the minimum wage was raised from \$9.47 (£7.40) to \$11 per hour in 2015, then \$13 per hour in 2016. New University of Washington research this week suggests this second increase reduced hours worked by low-wage workers by 9pc, with thousands of job losses and reduced hours for other workers.

So significant was this fall that total payroll spending actually fell for low-wage workers, implying that the minimum wage hike actually lowered low-wage employees' earnings by an average of \$125 per month in 2016. As the economist Jonathan Meer has said, we often debate

the relative effectiveness of minimum wages in poverty reduction, but “setting a hundred million dollars a year on fire” would have achieved more than the wage increase in Seattle.

This disastrous result and conclusion is all the more striking because of the extraordinarily rich new dataset the researchers had access to. Usually data limitations mean academic work focuses solely on the restaurant industry.

These types of reports have generated the results suggesting little to no employment impact that are then frequently cited by wage increase campaigners. But the Washington work actually shows the previous studies were too narrow. They confirm others’ results that the restaurant sector does not shed jobs, for example.

As such this study should prove a major turning point in the minimum wage debate. The apparently complacent attitude here and abroad that minimum wages can be continually raised with no negative consequences is surely now untenable.

In Britain in particular, we are currently engaged in a reckless experiment with people’s livelihoods. The Social Market Foundation has highlighted the danger, elucidating how around half the workers affected by the increase of the national living wage are part-time, 28pc are in jobs requiring no formal qualifications, 40pc have qualifications only up to GCSE or equivalent and more than 50pc are either very young (25–29) or old (over 50). Raising the national living wage much higher here, as in Seattle, really does risk hurting those groups it purports to help.

Of course, this new paper will not be the last word on the subject but clearly this is a significant piece of work, and one that should be taken very seriously by policymakers.

Sadly, the main barrier to it changing attitudes will be political. Some who see minimum wage increases as a moral cause rather than a balance of economic risks will ignore or dismiss the evidence. Disappointingly, accounts suggest that the pro-hike Mayor of Seattle, for example, got wind of the results and hastily shared them with researchers in favour of the increase. This should prove a key lesson to the Conservatives: once someone’s political fortunes get tied up with an idea, so-called “evidence-based policy” flies out of the window.

Here in Britain, we thankfully still have time. The strong overall employment performance in recent years is something we take for granted. But given the growing concern about raising minimum wages to such a high level, the Government should re-examine its commitment to continually raise the national living wage. Perhaps more importantly, Conservative MPs and others, such as Liberal Democrat leadership favourite Vince Cable, who harness private doubts about the wisdom of the national living wage policy, should speak up and outline these concerns before the damage is done.

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