

## Minimum wages and the wage policy of firms

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### Abstract:

The question of how firms set wages for their employees has been of longstanding interest in economics. In this paper, we investigate what models of wage determination are at play in a low-wage labor market. We exploit a sizable and salient age-specific minimum wage change in the United Kingdom – the National Living Wage (NLW) introduction. Starting April 2016, the NLW raised the minimum wage rate applying to workers aged 25 and over, leaving unchanged the minimum wage rates for younger workers. Using matched employer-employee data on the English residential care home sector, we document positive wage spillovers on workers aged under 25. Younger workers' wages are shown to have risen in tandem with those of older workers, with no detrimental effects on youth employment at both the market level and the firm level. We probe the inter- vs intra-firm nature of wage spillovers, and show that they arise within rather than between firms. Based on empirical tests and qualitative evidence from an ad-hoc survey of care homes in the sample, pay-equity concerns offer the most plausible explanation for the emergence of wage spillovers. The wage spillover effects that we document are shown to emerge in other low-paying sectors of the UK labor market.