

# The UK Minimum Wage and Low Pay Commission

Presentation to the German Minimum Wage  
Commission

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Pay Commission)

# Overview

## 1. The Low Pay Commission

## 2. The National Living Wage

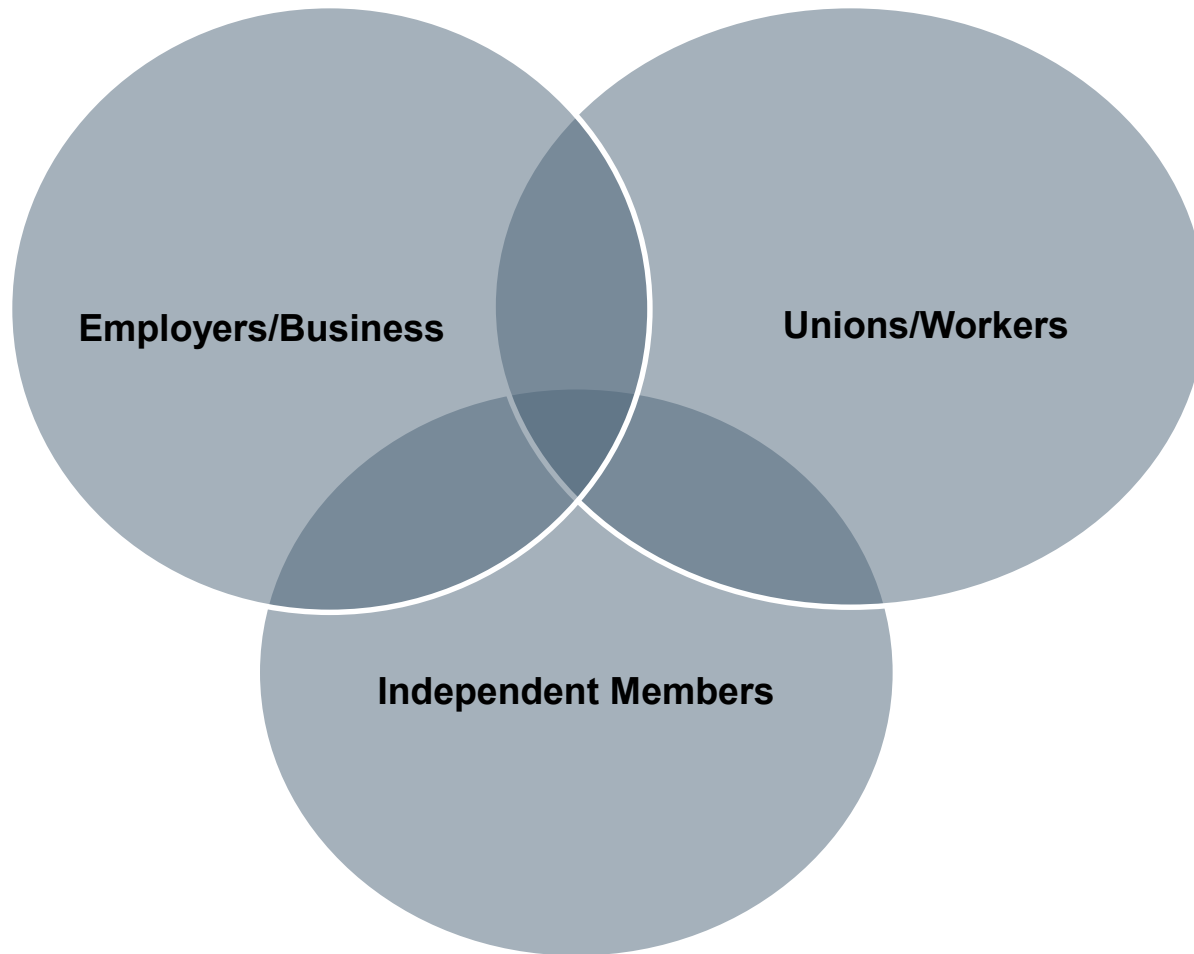
## 3. Labour Market Effects of the Minimum Wage

## 4. Impacts on other outcomes

## 5. Challenges in a time of Covid, Inflation and Brexit

# The Low Pay Commission

# A Social Partnership



# Low Pay Commission

- Established in 1997
- Independent from Government
- Makes recommendations to the Government on the rates and workings of the UK minimum wage
  - The LPC recommends but the Government decides

*“Our aim in making our recommendations each year is to help as many low-paid workers as possible **without any** significant adverse impact on employment or the economy.”*

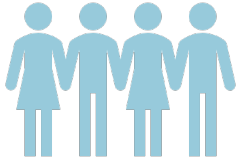
# Low Pay Commission

This changed in July 2015 with announcement of NLW and target of 60% median pay

- now a tolerance of some job loss  
(60,000 jobs)

- Between 2016 and 2020, the Government set the LPC a target for the National Living Wage of reaching **60%** of median earnings by 2020.
- Then between 2020 and 2024, the Government set the LPC a target for the National Living Wage of reaching **2/3** of median earnings by 2024.

# Our evidence-based approach



## Stakeholders

We speak to employers, employees and their representatives, through visits and evidence sessions



## Consultation

We invite written evidence submissions through an open, public consultation.



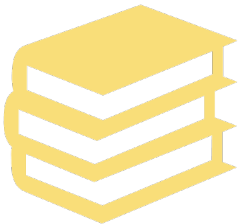
## Internal analysis

We undertake our own analysis of primary data sources, including econometric analysis



## Commissioned research

Each spring we commission research from academics and other experts, who report their findings in the autumn.



## External research

We make use of research produced by others including the IFS, Resolution Foundation and others



## International comparisons

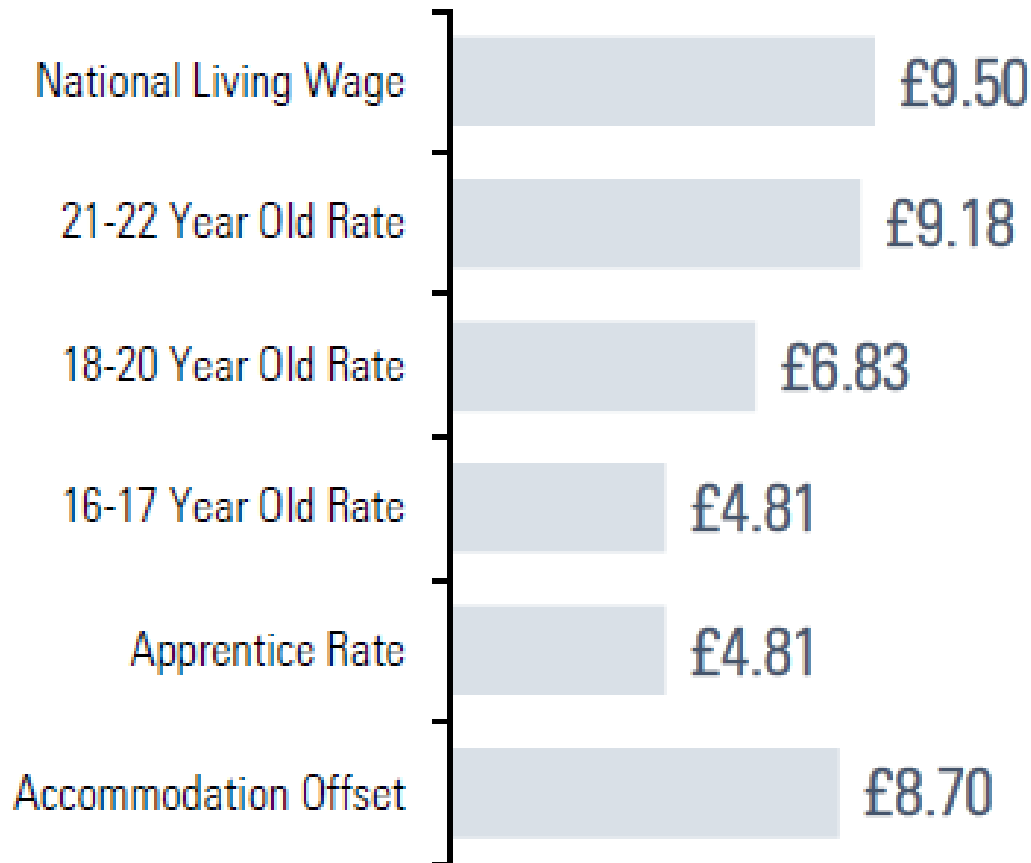
We make use of international data and research and convene events with our equivalents in other countries

# The National Living Wage



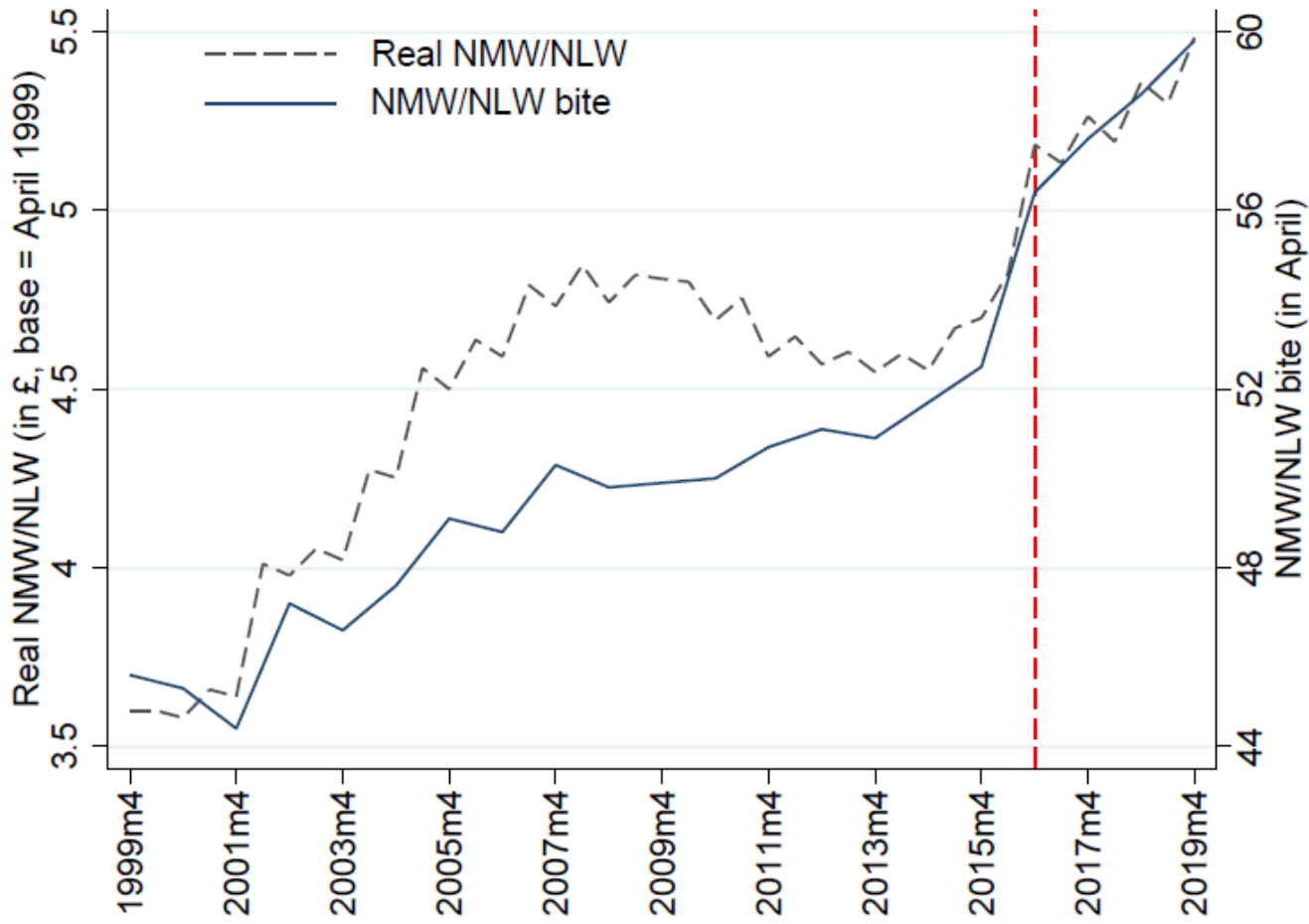
# Current Structure of the NMW/NLW

National Minimum Wage rates effective from 1 April 2022

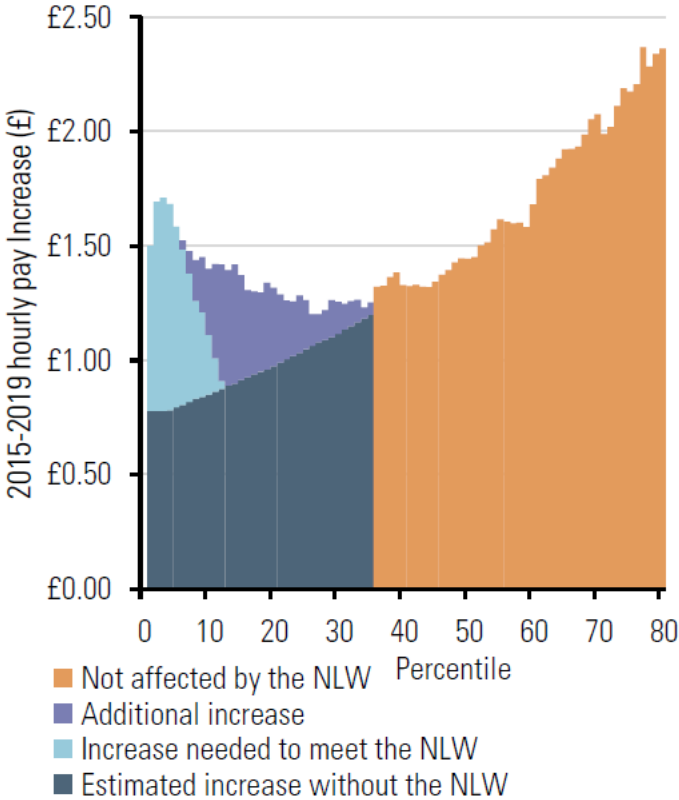
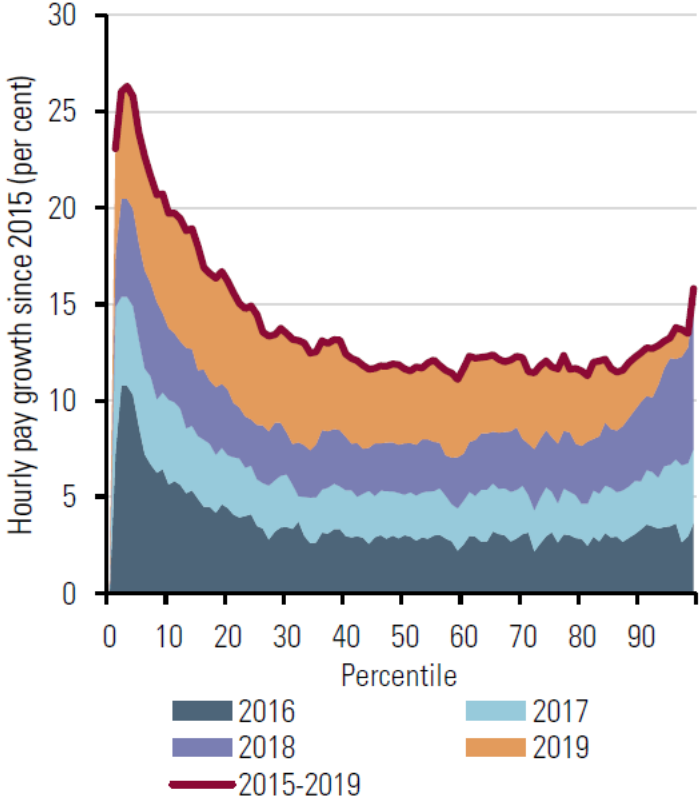


- 5 rates of the NMW
- 2 different rationales
- Youth rates/ apprentices same as before
- NLW on a target path to 2/3rds of median earnings by 2024
- The rate changes each April

# Real Minimum Wage and Bite: 1999-2019



# Change in the Hourly Pay Distribution: 2015-2019



Source: LPC analysis using ASHE, UK, 2015-2019, standard weights. Workers aged 25 and over, excludes first year apprentices. Highlighted areas in LHS chart shows annual increase in hourly pay percentile as a per cent of 2015 value for that percentile.

# Labour Market Effects of the Minimum Wage

# Impacts of the Minimum Wage

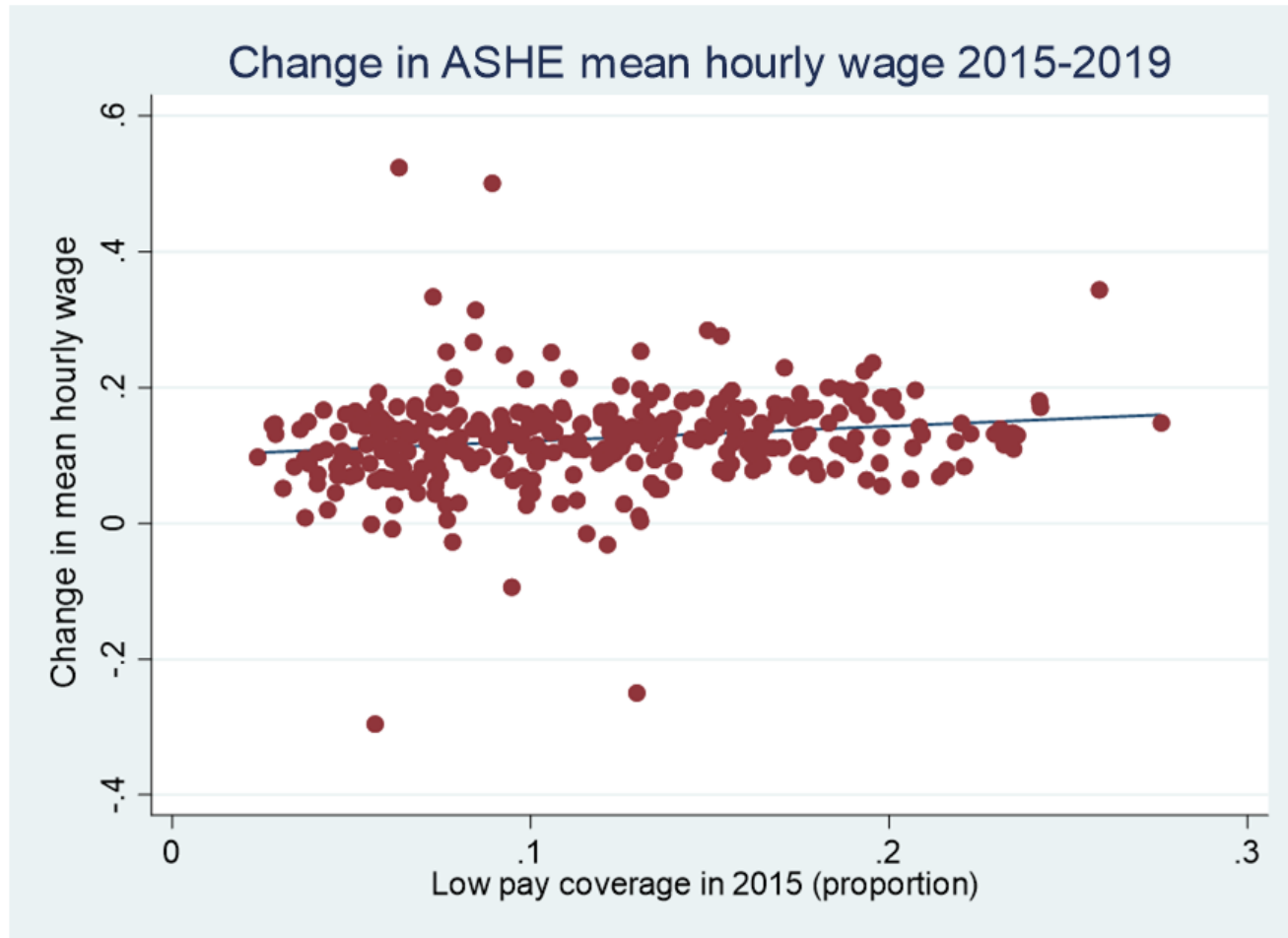
- Econometric analysis of the impacts tends to take two approaches
- 1. Compare outcomes across groups of individuals who are more or less affected by the increases
  - For example across regions, age groups, etc
- 2. Compare outcomes across individuals who are more or less affected by the increases
  - Focus on position in wage distribution
- 3. More recent research combines the two approaches

# Groups in the Labour Market

- 20 Standard Regions
- 8 – Five year age groups
- For Male and Female
- 320 Segments of the Labour Market
- Examine long run changes in wage and employment for groups more/less affected by the introduction of the NLW
- Work with LPC Chief Economist, Tim Butcher
  - Updating Dube and previously Manning

# Wage increases in higher bite groups

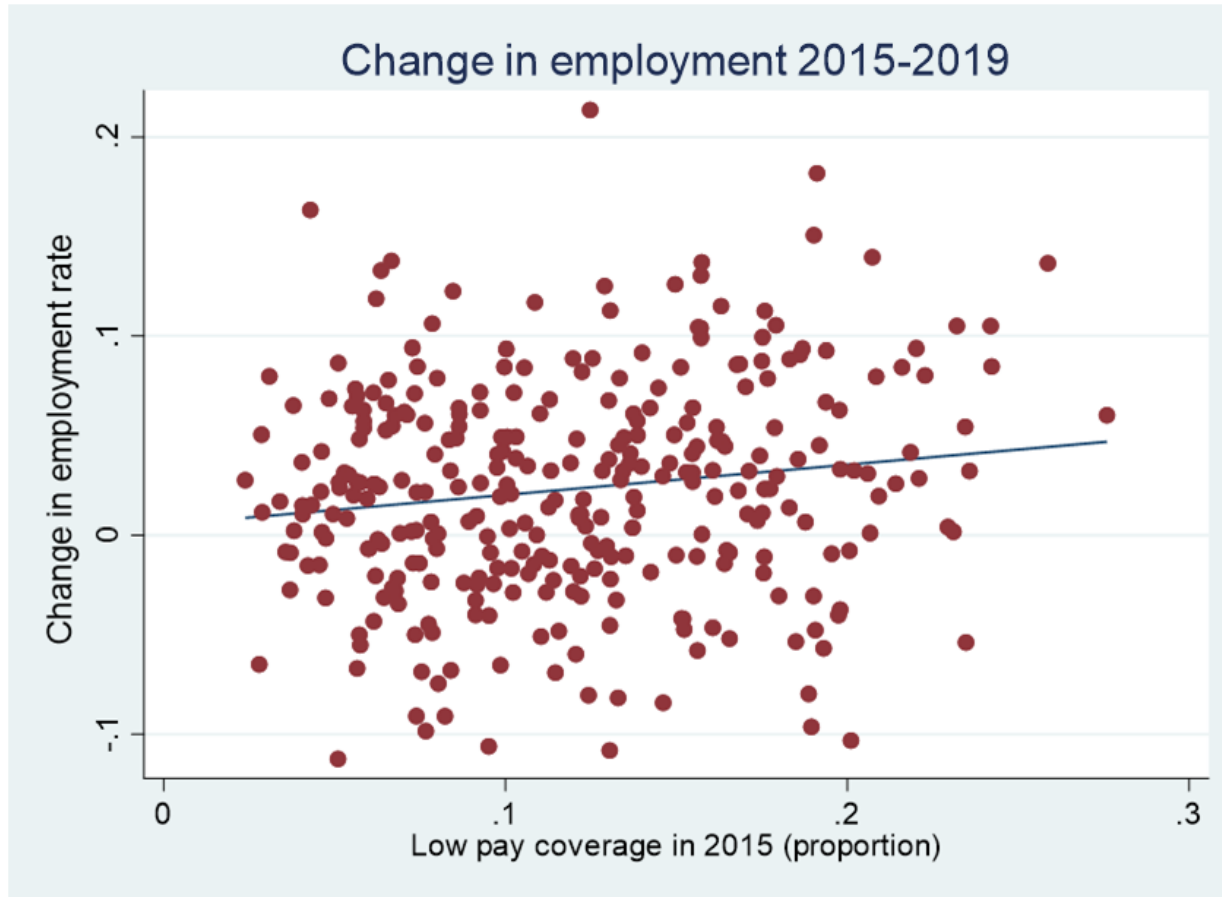
Figure 1: Coverage of the minimum wage and wage growth between 2015 and 2019



Source: LPC estimates based on ASHE, 2015-19.

# But Employment Change Flat

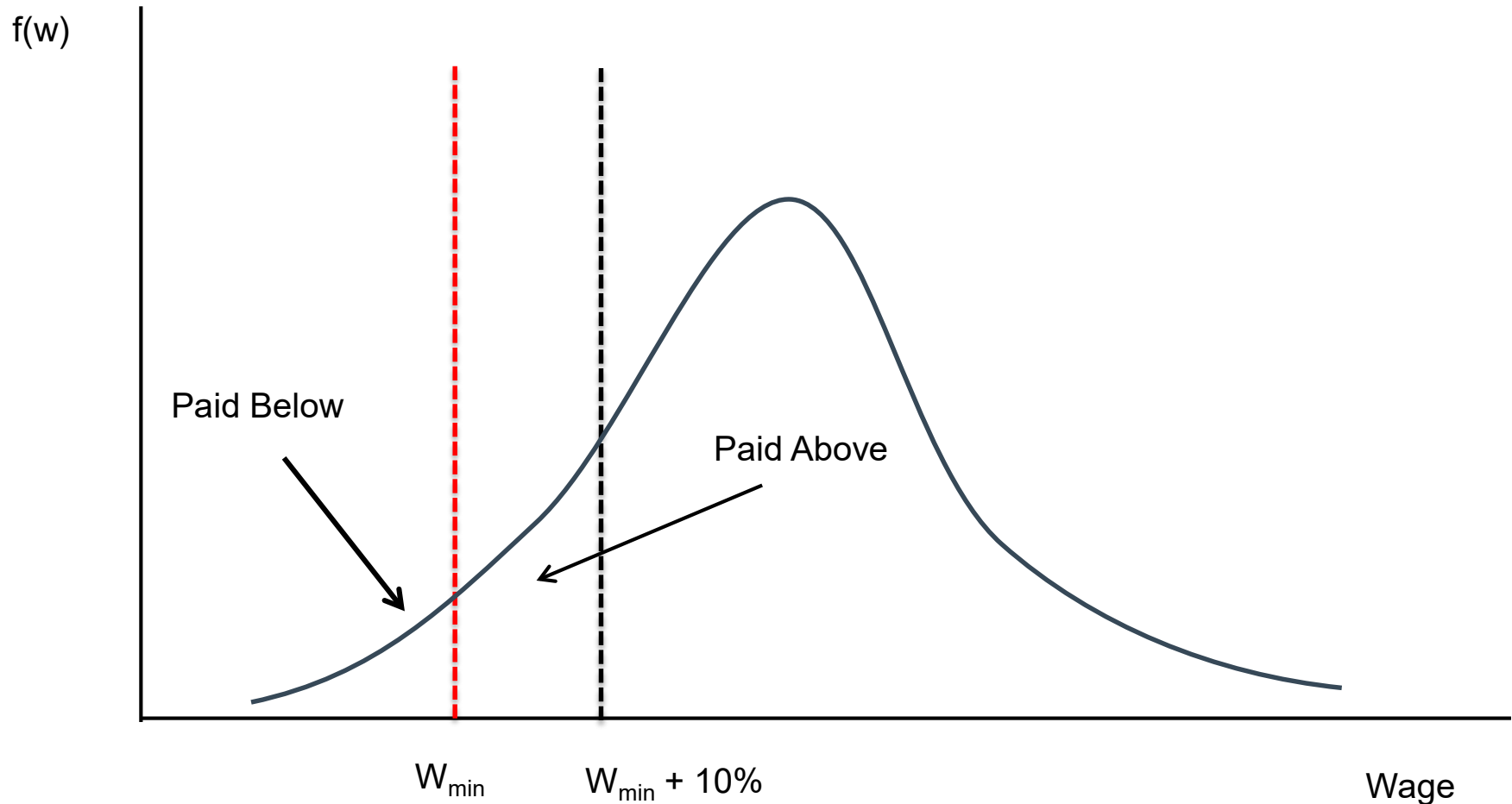
Figure 3: Coverage of the minimum wage and change in employment rate between 2015 and 2019



Source: LPC estimates based on ASHE (up to 2019) and LFS (up to 2020 Q1).



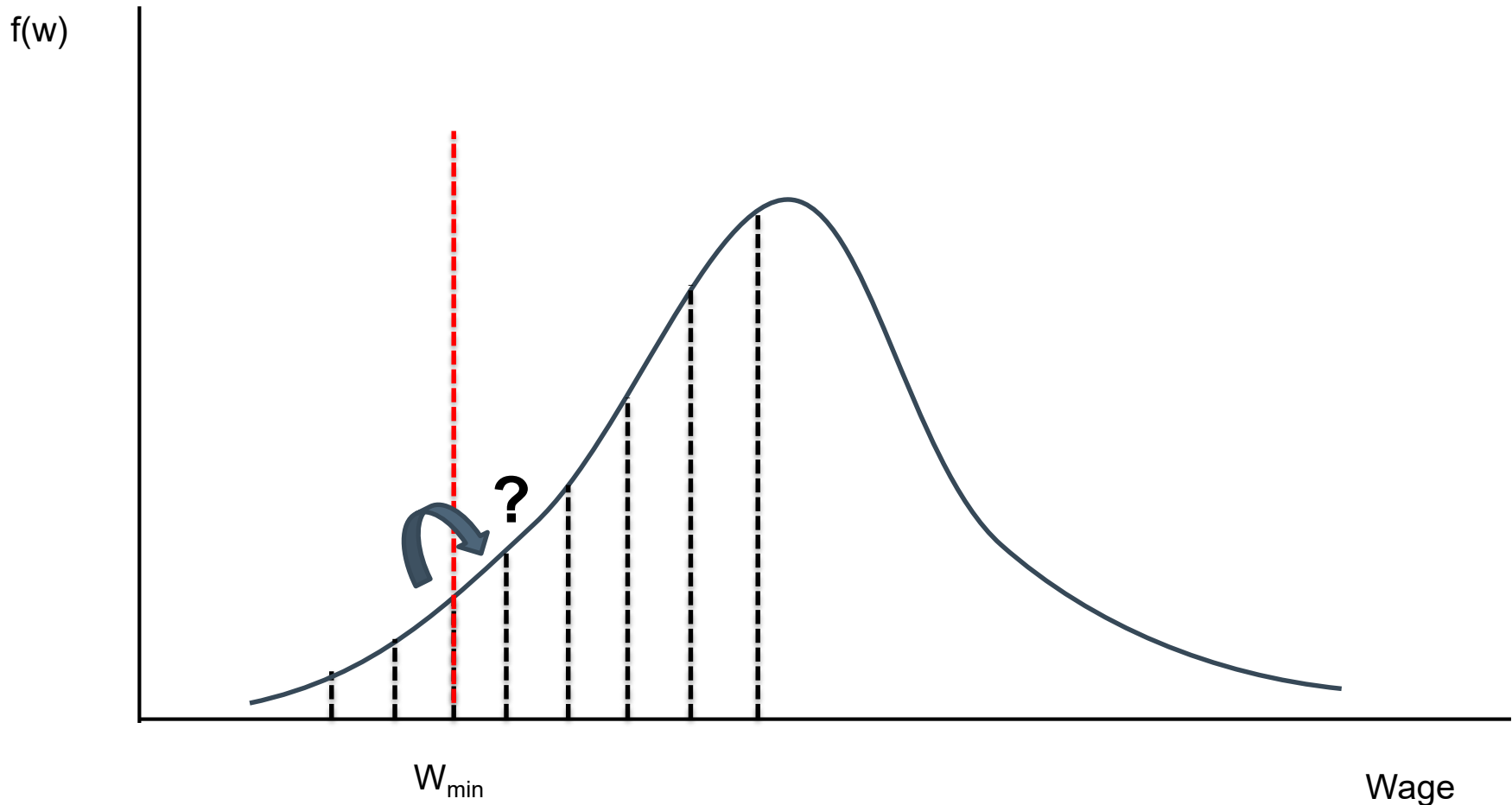
# Compare job retention among directly affected with those not affected



# Employment Retention

- No evidence introduction of the NLW had a significant impact on aggregate employment or hours over period 2016 to 2019
- Both internal LPC analysis and external research
- But a small negative effect on employment retention for part-time women workers following introduction of the NLW in 2016.
- Evident in two external studies (Aitken, Dolton, and Riley, 2018); Capuano, Cockett, Gray and Papoutsaki, 2019) and in internal analysis (Lord, 2022)
- Estimates of the associated reduction in employment retention ranging between 2 and 3 percentage points.
- Effect was not found across the whole period or for other years.

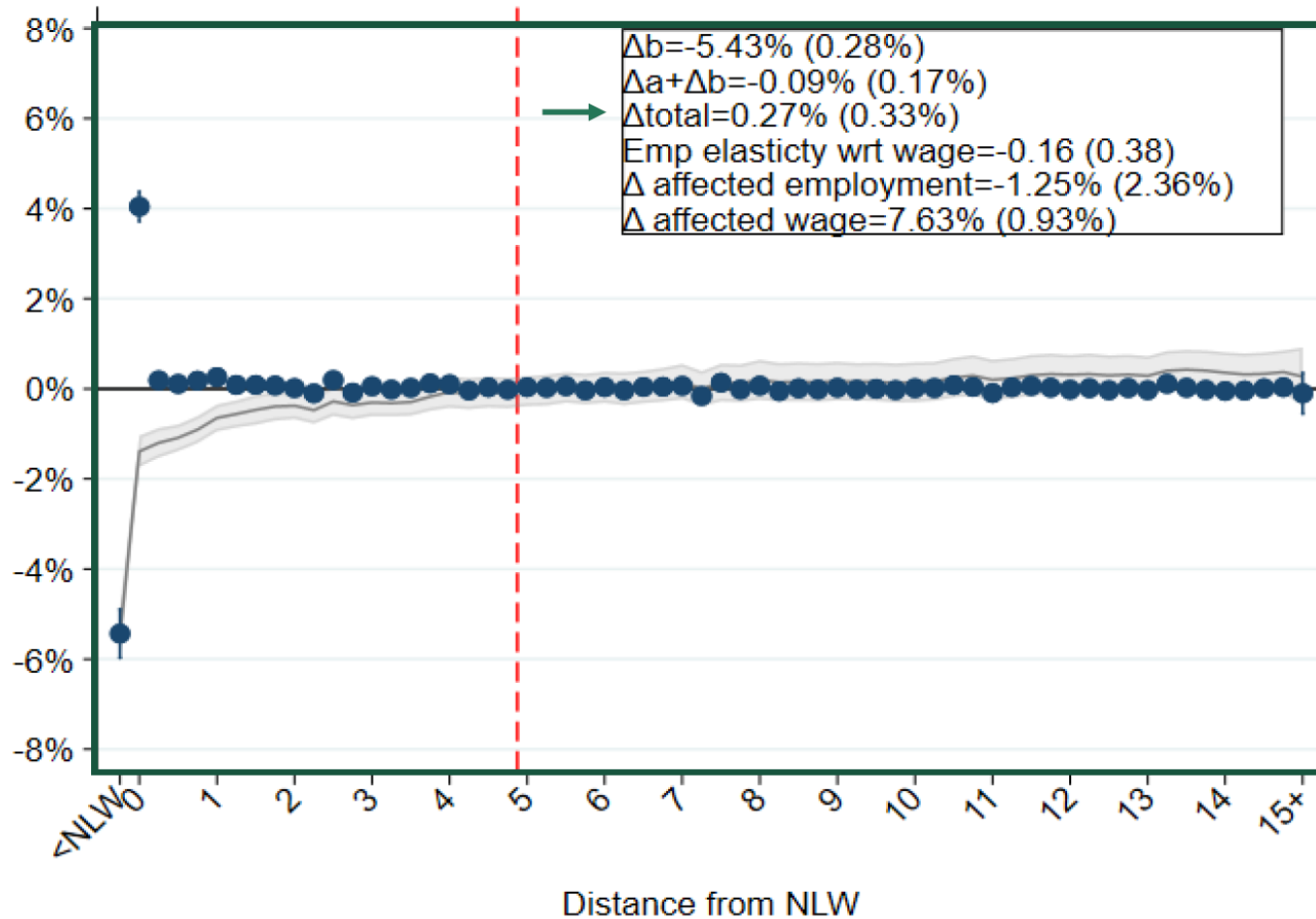
# “Bunching” estimator that compares the number of jobs in different pay bands



## Bunching by Region

- Innovative work by Cribb et al (2021) exploits regional variation in price levels – and hence in the bite of the minimum wage
- Define groups of workers expected to be paid the same if they lived in the same place but whose actual wages — and hence proximity to the NLW — vary across areas due to regional differentials.
- Use number of jobs in higher wage bins in high-wage areas as counterfactual for trends in the number of jobs in lower wage bins in lower-wage areas
- Match wage bins across areas that are equivalent in real terms but – due to cost-of-living differences – differentially exposed to NLW

# Estimated effects on number of jobs (for the whole period 2015-2019)

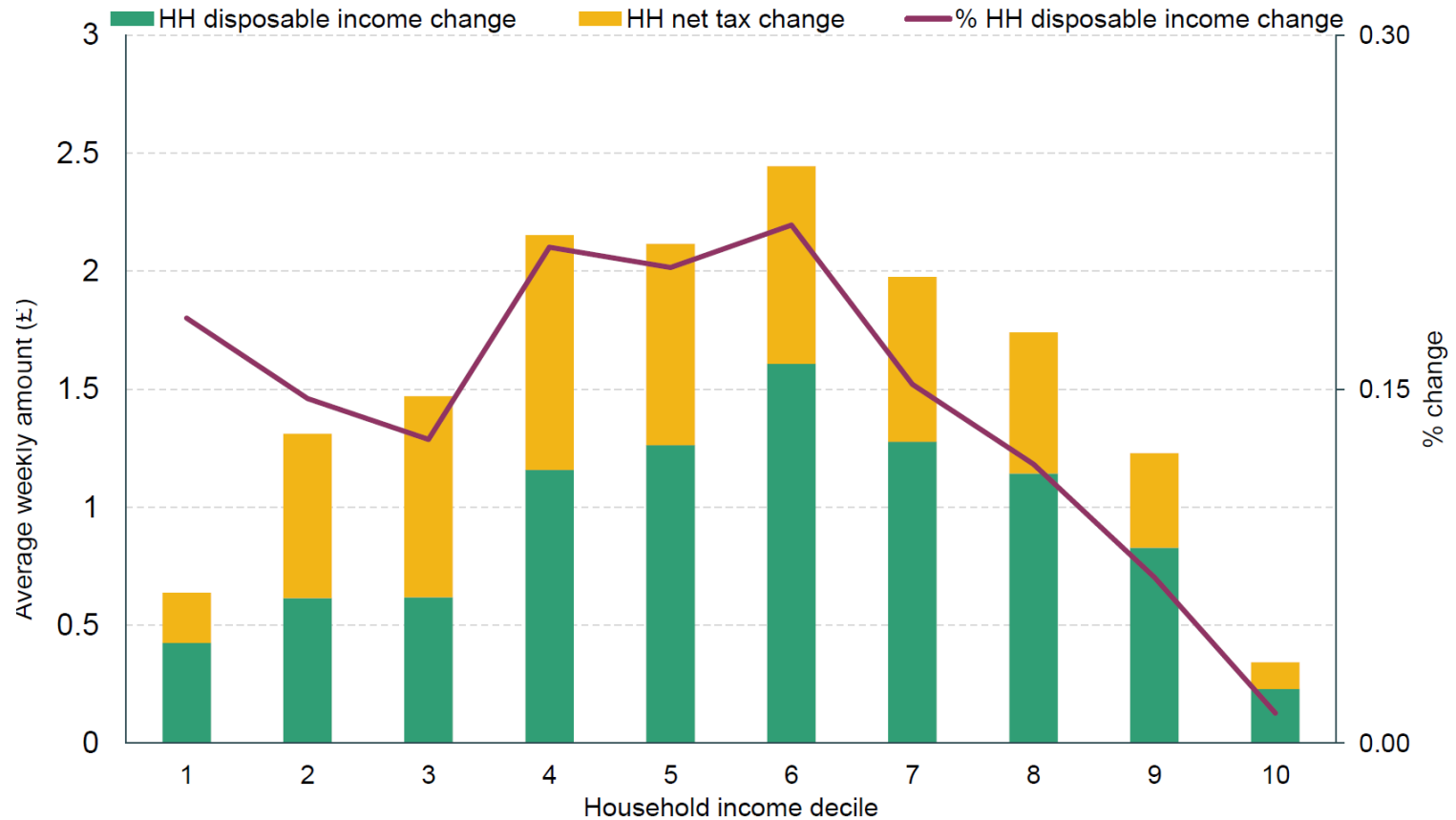


# Impacts of NLW on employment and hours

- Bunching approach suggests little employment effect of the NLW from 2015-2019
  - Corroborating findings of previous work with other methods
  - Majority of the estimated ‘action’ was at or a little above the NLW in each year, increasing confidence that we are picking up the impacts of the NLW
- Results robust to variety of specifications, and pass a pre-NLW placebo check
- Little effect on hours of work
- Weak evidence that employment effect more negative for women than men
- More positive effects on their employment for those aged under 25

# Impacts on other outcomes

# Gross and net household income changes



Note: sample includes all individuals in a household with at least one 25-64 year old



## Impact on Prices, Productivity, Profits

- Evidence from the pre NLW period of increases in prices and productivity in response to changes in the minimum wage
- Recent research finds strong evidence that, for the sector/regions that are most exposed to changes in the cost of minimum wage labour, inflation is higher in months when the minimum wage is increased
- Small relative to the size of the minimum wage increase: equivalent to an elasticity of prices with respect to minimum wage of 0.02 to 0.11.
  - This finding is consistent with the findings of similar studies in the United States and Hungary.
- LPC analysis of productivity (industry/region) finds no significant change in response to the NLW

# Challenges in a time of Covid, Inflation and Brexit

## The labour market has yet to settle

- Uncertainty regarding the economic effects of the pandemic and Brexit
- Record levels of job vacancies
  - Firms on LPC visits complain of shortages
  - Labour market participation has fallen (Brexit, Long Term Sick and early retirement)
  - Students have not been at University affecting local labour markets
- This at a time of moving to the new NLW target of 2/3rd median earnings by 2024
- Evaluating the recent changes is a serious challenge in this context

## The path to 2/3rds Median Wage

- Essential for LPC to have good quality wage data and wage forecasts
- April 2022 projections of 8.6% increase in 2023 and 6.1% in 2024
- Covid furlough scheme ended in September 2021
  - So wage inflation data from AWE, ASHE bases back to a period with over 1.3m workers on furlough
- Truss/Kwarteng “Mini Budget” in Sep 2022 conducted without OBR forecasts
- So LPC reliant on out of date wage/inflation forecasts prior to this fiscal loosening (Bank of England, August 2022)

# Comments and Questions