20 years of the National Minimum Wage

A history of the UK minimum wage and its effects

Low Pay Commission

April 2019

Contents and Chair's foreword

<u>Contents</u>

Chair's foreword

The National Minimum Wage (NMW) came into force on 1 April 1999 amid considerable controversy. The conventional wisdom of the time was that minimum wages simply forced low-paid workers out of their jobs.

But over the last 20 years, the NMW has shown that this is not necessarily the case. It has raised pay for the lowest paid without damaging employment. And it has become an established part of the UK labour market, enjoying cross-party support and the backing of both employer and worker representatives.

The NMW's introduction was a marked change for the lowest paid. The previous norm was for low-paid workers to see their earnings grow more slowly than the average, regardless of the stage of the economic cycle. Pay of the lowest paid 5% of workers rose by 6 percentage points less than the average in the early 1980s recession, and then by 9 percentage points less in the subsequent recovery. The NMW reversed this norm: since 1999, the lowest paid have seen their pay grow faster than all other workers.

Chair's foreword (continued)

The impact of the NMW is not just felt by workers paid at the rate. Wage effects ripple up the pay distribution as employers maintain a 'differential' between the minimum rate and pay for managers and team leaders just above.

We estimate that the combined effect of NMW upratings on the lowest paid workers, and those paid just above them in the wage distribution, has been to increase their pay by £60bn in real terms over the first 19 years of the minimum wage. The very lowest paid now have hourly pay around £2.70 more in real terms than would have been the case in the absence of the NMW. To a full-time worker that difference is an additional £5,000 per year.

At the same time, rather than destroy jobs, as was originally predicted, we now have record employment rates. This isn't to say that meeting the NMW has been easy for employers – we have heard extensive evidence about the challenges for profits, prices and wage structures – but the overwhelming weight of evidence tells us that the minimum wage has achieved its aims of raising pay for the lowest paid without harming their job prospects.

A large part of this success must be ascribed to the social partnership model. Combining the views of both employers and workers with the most up to date evidence and research has meant the LPC is able to give good advice on the appropriate level, balancing need and affordability. It not only means our judgement is objective, it means that our recommendations have credibility with employers and workers alike.

For this reason we want to celebrate 20 years of the minimum wage, one of the most successful policies of recent years. Indeed it was voted the most successful policy of the last 30 years by the Political Studies Association in 2010[1].

Following the Chancellor's announcement at the Budget in October 2018 it seems the NMW is moving into another phase, one with the ultimate aim to end low pay once and for all. We look forward to working with the Government on this important agenda.

Bryan Sanderson, Chair of the Low Pay Commission

[1]Institute of Government, 2010. Policy making: what worked?.

Summary: 20 years of the NMW

- The NMW was introduced on 1 April 1999. Since then, it has risen faster than average earnings and inflation without damaging jobs.

- On 1 April 2019 the main minimum wage rate, the National Living Wage (NLW) reached £8.21. If instead it had risen in line with average earnings it would be £6.54, if it had risen with prices it would be £6.31 (RPI) or £5.39 (CPI).

- When the NMW was introduced, the UK was in the middle of the OECD's real minimum wage rankings. The rate has increased faster than almost all equivalents, and the UK is now in the group of high minimum wage countries.

- The number of workers 'covered' (paid within a few pence of the rates), has increased from 830,000 in 1999 to 2 million in 2018.

- But the impact on earnings affects far more people: up to 30% of jobs, or seven million each time the NMW increases. Since 1999, we estimate that in total workers have benefited from a real increase of £60 billion. The bottom 1% of workers were paid £2.70 an hour more in real terms in 2018 than they would have been with average pay growth - an additional £5,000 a year for the lowest paid full-time worker.

- Since 1999, hourly pay has increased the fastest for the lowest paid, reversing the previous norm where the lowest paid saw slower-than-average earnings growth.

- During the financial crisis and subsequent recovery the average worker suffered a lost decade of real pay growth as wage increases stagnated (median pay is 4% lower than in 2008 in real terms). But the NMW – and the introduction of the NLW in 2016 – meant that real pay recovered far faster for low-paid workers (real pay for NMW/NLW workers is 13% higher than in 2008).

- The distribution of pay has become compressed as the NMW has increased. Far fewer workers are paid less than 60% of median hourly pay but the share paid between 70% of the median and median has stayed the same.

- Around 30% of jobs have benefited from the NMW/NLW and weekly pay has increased faster for workers with the lowest hourly wages.

- Over the past 20 years, the LPC has commissioned more than 30 projects looking at the NMW's impacts on hours and employment. In this time, we have not found any strong evidence of negative effects.

- Employers have adjusted to the NMW and the NLW in a number of ways: by reducing profits; increasing prices; and restructuring their business and workforce.

The road to the NMW

Wage setting before the NMW

A universal statutory minimum wage was first introduced in 1999, but regulation of low pay had existed long before this.

Established in the 1890s as Trade Boards, Wage Councils, as they came to be known, set pay in ‘sweated’ trades – those with little union coverage – for much of the 20th century. They were secondary to more general collective bargaining, but supported wages in the lowest-paid jobs. Wage Councils declined through the 1980s, coinciding with a fall in union coverage, and were abolished in 1993.

Debate leading up to introduction

The National Minimum Wage had far from universal support prior to its introduction, with a widespread assumption that any minimum wage would lead to the loss of jobs. But during the 1990s, academic thinking on the effects of minimum wages began to shift, beginning with Card and Krueger’s studies on US minimum wages. At the same time the number of people in low-income households was rising.

It was against this backdrop that the idea of a National Minimum Wage gained support in the Labour Party. A minimum wage of 50% of (male) median earnings was a Labour manifesto commitment in 1992.

The 1997 Labour manifesto committed to a flexibly set national minimum wage – and an independent Low Pay Commission.

These proposals were controversial – business groups and the Conservative party had argued that the risk to employment from any minimum wage was too high. Some unions had worried that it threatened the integrity of collective bargaining.

New Labour’s manifesto argued for a “sensibly set national minimum wage”[1]

It said that “there should be a statutory level beneath which pay should not fall - with the minimum wage decided not on the basis of a rigid formula but according to the economic circumstances of the time and with the advice of an independent low pay commission, whose membership will include representatives of employers, including small business, and employees.”

In office the Blair Government set up the Low Pay Commission in July 1997 and passed the National Minimum Wage Act 1998 in July 1998.

The Low Pay Commission’s first report was published in June 1998, and its recommendations came into force on 1 April 1999.

[1]Labour Party 1996. New Labour, New Life for Britain.

How the LPC works

The defining principles of the LPC's decision-making are its social partnership formation and its evidence base. Commissioners bring significant expertise, and are supported by a small secretariat that gathers and presents evidence to them.

Evidence

The LPC commissions a number of research projects from UK and overseas researchers each year. The LPC has commissioned over 130 pieces of external research since 1997. Alongside this, the Secretariat carries out a substantial amount of analysis of labour market and economic data.

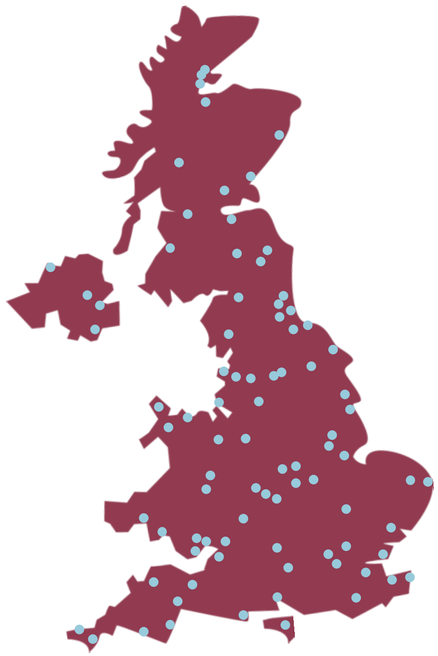
Each year the LPC undertakes a detailed consultation process with a wide range of stakeholders. The three main elements of this are: an open written consultation, to which anyone with an interest in the minimum wage can respond; private oral evidence sessions with stakeholders to interrogate consultation responses and other views; and a programme of visits around the UK, which include meetings with local and regional stakeholders.

For the LPC's first report, the Commission visited over 60 locations around the UK. Since then, it has been on over 100 visits to all parts of the country. The visits demonstrate the UK-wide nature of the LPC's work. They also allow Commissioners to create effective working relationships as they build a shared experience of worker and employer testimony on the effects of the minimum wage.

Rate recommendations

Commissioners decide on rate recommendations at an annual 'retreat'. The Secretariat presents a summary of the evidence received and analysed throughout the year before Commissioners discuss the implications for the rates and agree on a recommendation to Government.

LPC visits, 1997-2018



The social partnership model

The 1998 Minimum Wage Act put the LPC on a statutory footing as an independent social partnership body. This means that the legislation requires a 'balance' between representatives from employer, worker and academic backgrounds. There are nine Commissioners, three from each of these groups, ensuring that both worker and employer views contribute to the final recommendations. Commissioners bring significant expertise and a shared sense of purpose: to help low paid workers by raising minimum wages without damaging employment or causing other negative effects.

The Commissioners are supported by a small secretariat of economists, statisticians and policy professionals, whose role is to provide Commissioners with the evidence they need to make their recommendations. This evidence base has three main pillars: commissioned research, in-house economic analysis, and stakeholder evidence.

The last of these – talking to stakeholders with an interest in the minimum wage – has always been a fundamental part of the LPC's evidence base. As a social partnership organisation, it is vital that the LPC understands and reflects the views of all sides of the debate.

Commissioners undertake formal oral evidence sessions with stakeholders and a programme of regional visits, which involve meeting with employers – often small businesses – and groups of workers to understand how the NMW is affecting their lives. This is partly because it is important to make sure that both workers' and employers' views are taken into account, but undertaking these activities together ensures that Commissioners undergo a "shared and mutual education" as to the issues.[1]

There are further benefits to the social partnership model. Evidence alone cannot answer the question as to what the level of the NMW should be; making this decision also requires an element of judgement. Commissioners' different backgrounds and areas of expertise allow the LPC to find a balance between economics, a pragmatic view of the labour market and employee relations.

As the LPC's first report stated: "Ultimately, the introduction of a National Minimum Wage in the UK is not a scientific exercise; rather, it is a journey into uncharted waters... We made every effort to identify and listen to the sectors of business and to the people for whom the National Minimum Wage might have the greatest impact…"[2]

The recommendations of the Low Pay Commission have always been unanimously agreed by Commissioners. The fact that these judgements are made by social partners, working together and reaching decisions via consensus, ensures that the concerns of both workers and employers are taken into account and that all recommendations are backed by both groups alike.

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[1]Low Pay Commission, 2001. The National Minimum Wage, Third Report of the Low Pay Commission, Volume 2, June. [2]Low Pay Commission, 1998. The National Minimum Wage: First Report of the Low Pay Commission. June.

History of the NMW

1997 July
Low Pay Commission established.

1998 June
First LPC report recommends introducing a minimum wage of £3.60 per hour for workers aged 21 and over, and £3.20 per hour for 18-20s.

1998 July
National Minimum Wage Act 1998 passed.

1999 April
National Minimum Wage introduced at £3.60 per hour for workers aged 22 and over, and £3.00 for 18-21s.

2001 1 October
Minimum wage increases by 10.8% to £4.10 - the largest percentage increase until the introduction of the National Living Wage.

2004 1 October
Rate for 16 and 17 year olds introduced at £3.00 per hour. NMW for adults 22+ rises to £4.85 per hour.

2007
LPC stops recommending rates for two years ahead, moving to an annual recommendation cycle.

2010 1 October
21 year olds become eligible for the adult rate, following the LPC's recommendation. The Apprentice Rate is introduced.

2012 1 October
16-17 and 18-20 rates frozen to protect employment of young people following the recession.

2015 8 July
Chancellor George Osborne announces the National Living Wage, a higher minimum for workers aged 25+ with a target of 60% of median earnings by 2020.

2016 1 April
National Living Wage introduced at £7.20 per hour for workers aged 25+, a 50 pence increase - the largest ever. Minimum wages increase on 1 April for the first time since 1999.

2019 1 April
20th anniversary of the minimum wage

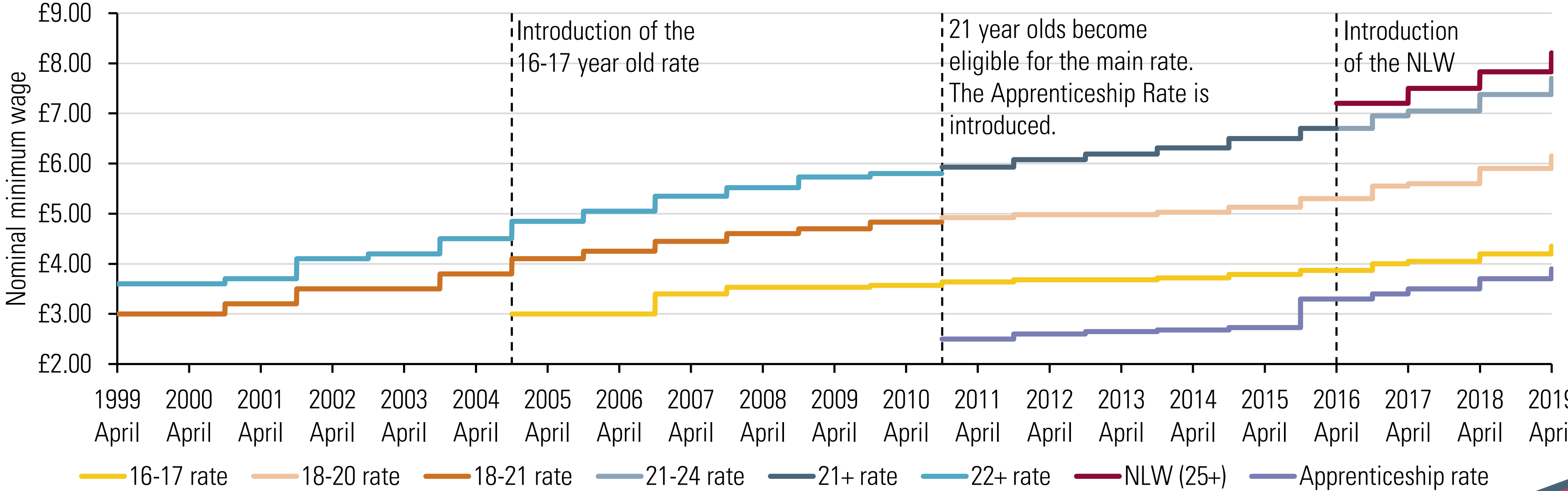
2020 1 April
National Living Wage set to reach 60% of median earnings target

The structure of UK minimum wages has changed since 1999

At the introduction of the NMW in 1999 there were two rates, one for workers aged 18-21 and one for those aged 22 and over.

Since then the structure of the NMW rates has changed three times. There are now five minimum wage rates:
- The National Living Wage (NLW) for those aged 25 and over
- A rate for those aged 21 to 24
- A rate for those aged 18 to 20
- A rate for those aged 16 and 17
- An apprentice rate for all apprentices aged 16 to 18 and for older apprentices in the first year of their apprenticeship.

The LPC also recommends the level of the 'accommodation offset' – the maximum amount that employers can deduct from the minimum wage in exchange for providing accommodation. This was introduced in April 1999 alongside the NMW.



Source: LPC data.

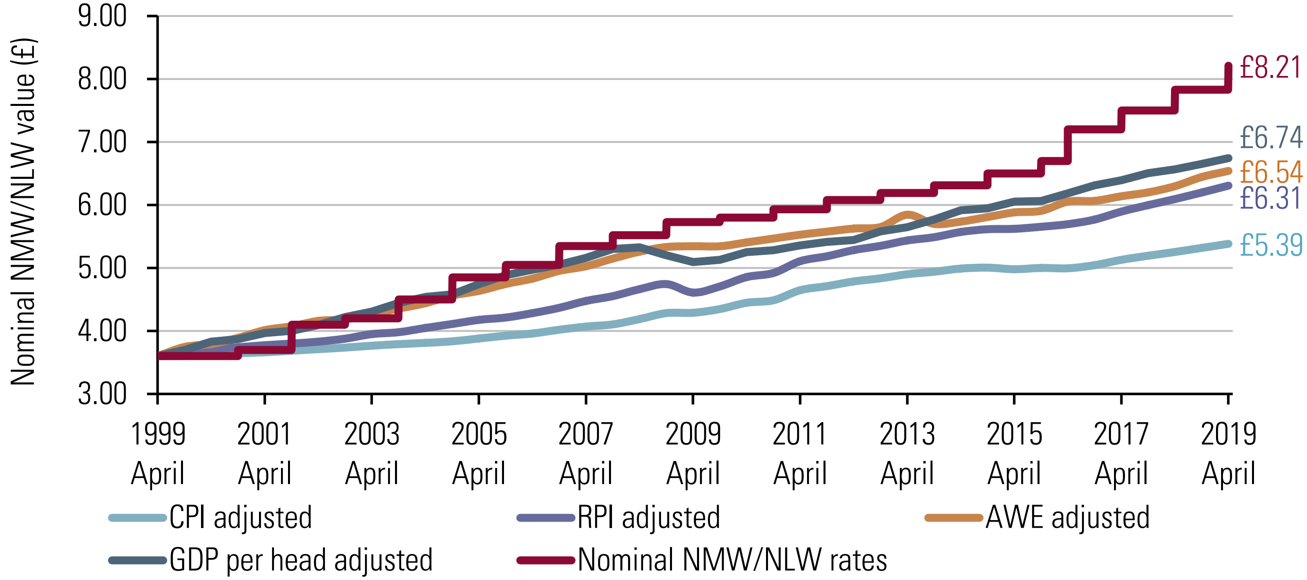
The minimum wage has increased significantly over the last 20 years…

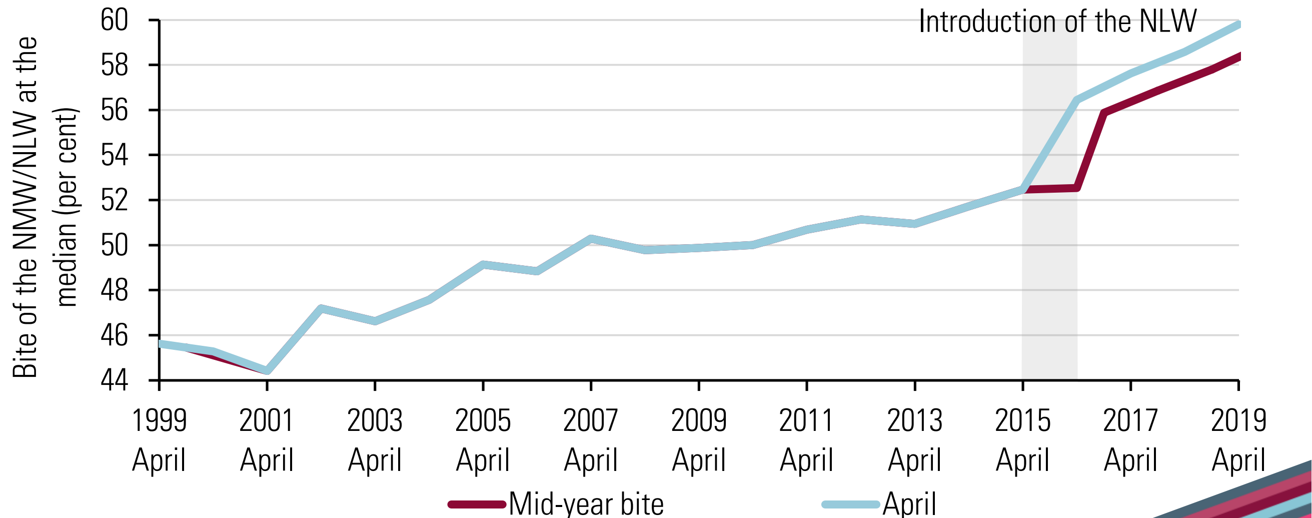
There have been four phases of NMW increases since its inception: the initial cautious recommendations of the first few years (1999-2001); more ambitious increases where the NMW rose faster than both average earnings and inflation (2001-2007); a more cautious approach following the financial crisis and subsequent recovery (2008-2015); and, from 2016 to the present day, the era of the National Living Wage.

The main rate of the minimum wage was introduced at £3.60 in 1999 and has since grown faster than prices, average wages and GDP per head. If it had instead just risen in line with prices it would have only reached £5.39 (CPI) or £6.31 (RPI). If it had risen in line with average weekly earnings it would have reached £6.54.

The ratio between the minimum wage and the median wage – known as the 'bite' – has increased significantly since introduction.

The NLW was introduced with a bite target of 60% by October 2020, leading to faster increases. We estimate the current (April 2019) bite to be 59.8%.





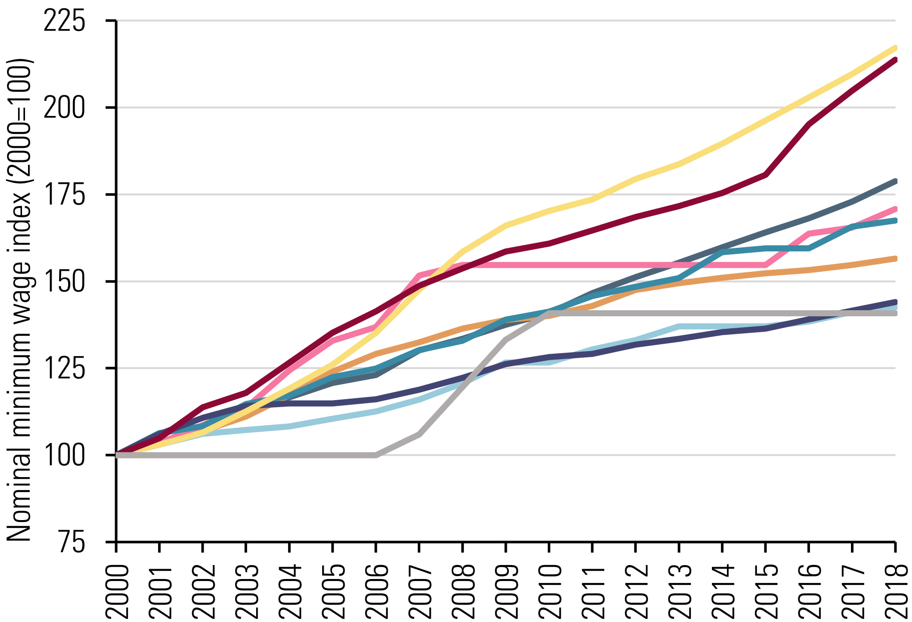
Source: [1] LPC analysis using ONS data. CPI (D7BT), RPI (CHAW), AWE (KAB9) uses Average Earnings Index for 1999, GDP per head (IHXT). Forecasts from Office for Budgetary Responsibility March 2019 Economic and fiscal outlook.
[2] LPC analysis using ASHE and HM Treasury panel of independent economic forecasts.

…and has grown faster than nearly all international equivalents

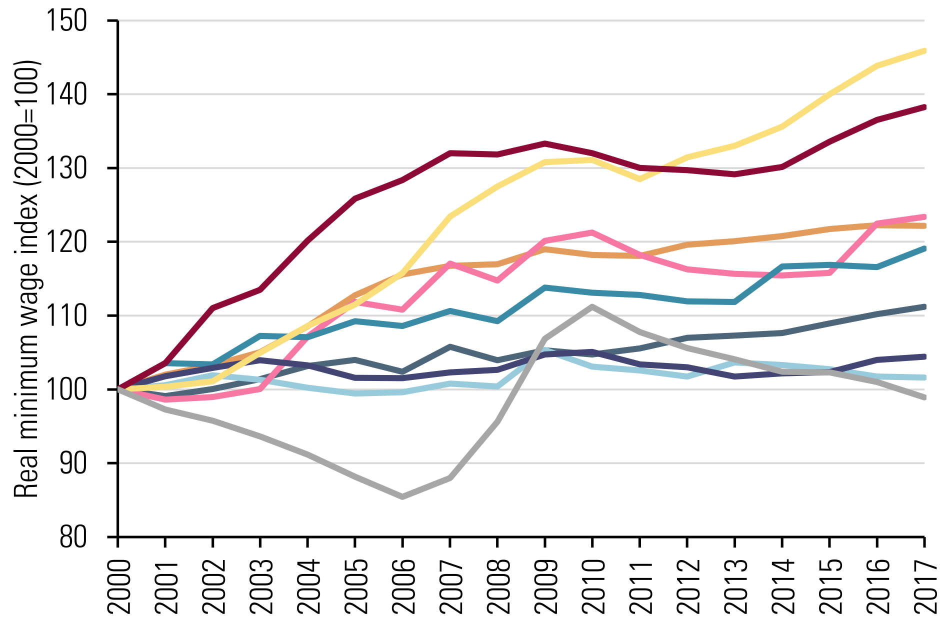
Over its 20 years, in both nominal (below left) and real terms (below right) the UK's minimum wage has grown faster than those in all comparable OECD countries apart from New Zealand. When the NMW was introduced, the UK was in the middle of the OECD's real minimum wage rankings. Having grown faster than almost all comparators, the UK is now in the group of high minimum wage countries.

Modest increases during and following the recession meant a fall in the NMW's real value, although this was common across the OECD. Recent large increases, especially since the introduction of the NLW, have been among the fastest in both nominal and real terms.

Change in nominal minimum wages in OECD countries, 2000-2018



Change in real minimum wages in OECD countries, 2000-2017



Australia Belgium France Ireland Luxembourg Netherlands New Zealand United Kingdom United States

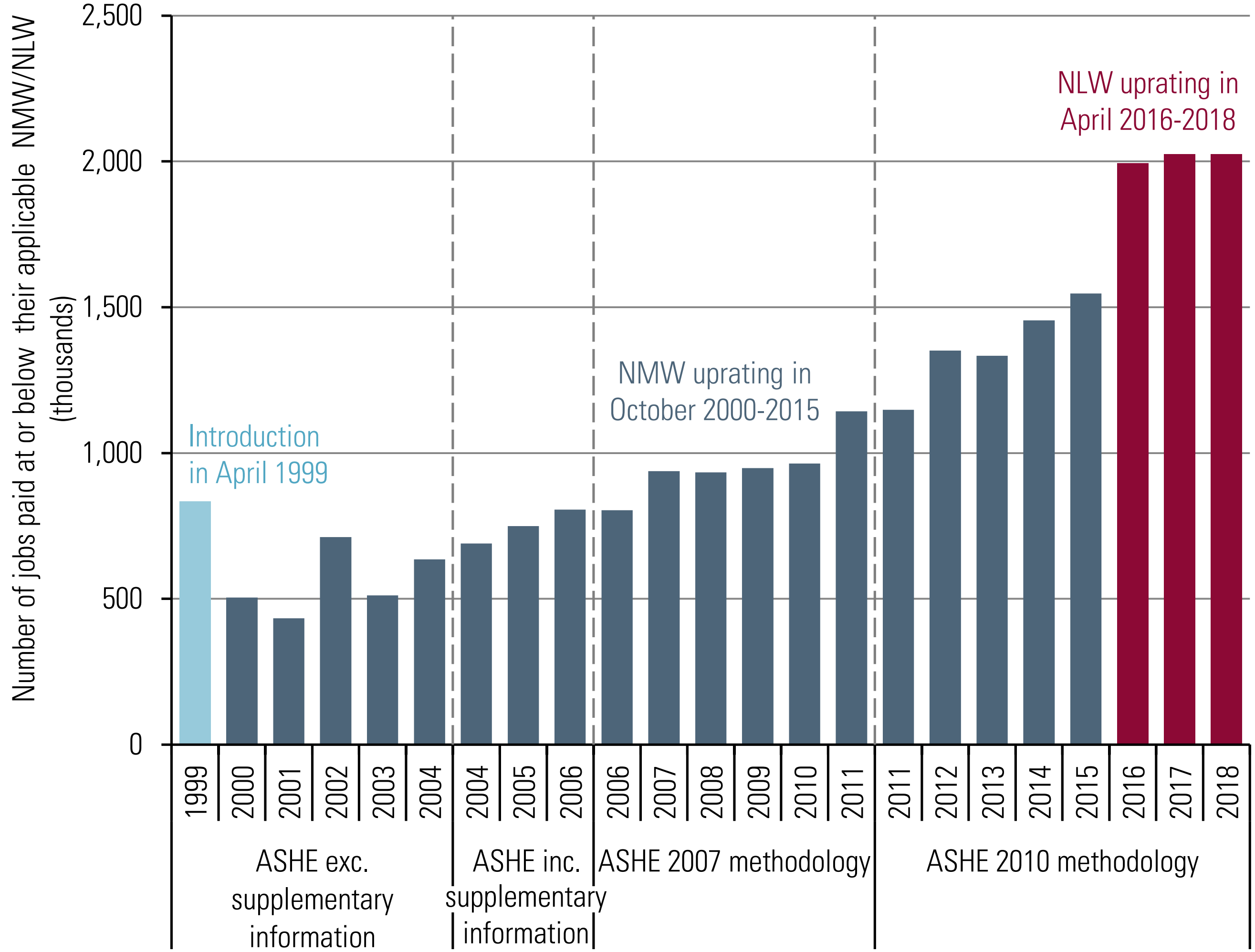
Source: [1] LPC analysis using OECD Nominal minimum wages data. [2] LPC analysis using OECD Real minimum wages data.

This has led to many more workers benefiting from pay increases…

When the NMW was introduced in April 1999, 830,000 jobs held by workers of all ages were paid the minimum wage (which we refer to as coverage). In April 2018 this figure had reached around 2 million. This represents a doubling of the proportion of jobs covered, from 3.4% to 7.0% of all jobs.

Around half of this increase is due to the National Living Wage, which was introduced in 2016 and covered workers aged 25 and over. In April 1999, 680,000 jobs held by workers aged over 25 were covered by the minimum wage. By April 2018 this had grown to 1.6 million jobs.

However, we know that more people feel the benefit of a minimum wage than just the workers who receive the rate. Minimum wages have 'spillover' effects, leading to faster wage growth for those earning slightly above the rate. We look at this in the next sections.



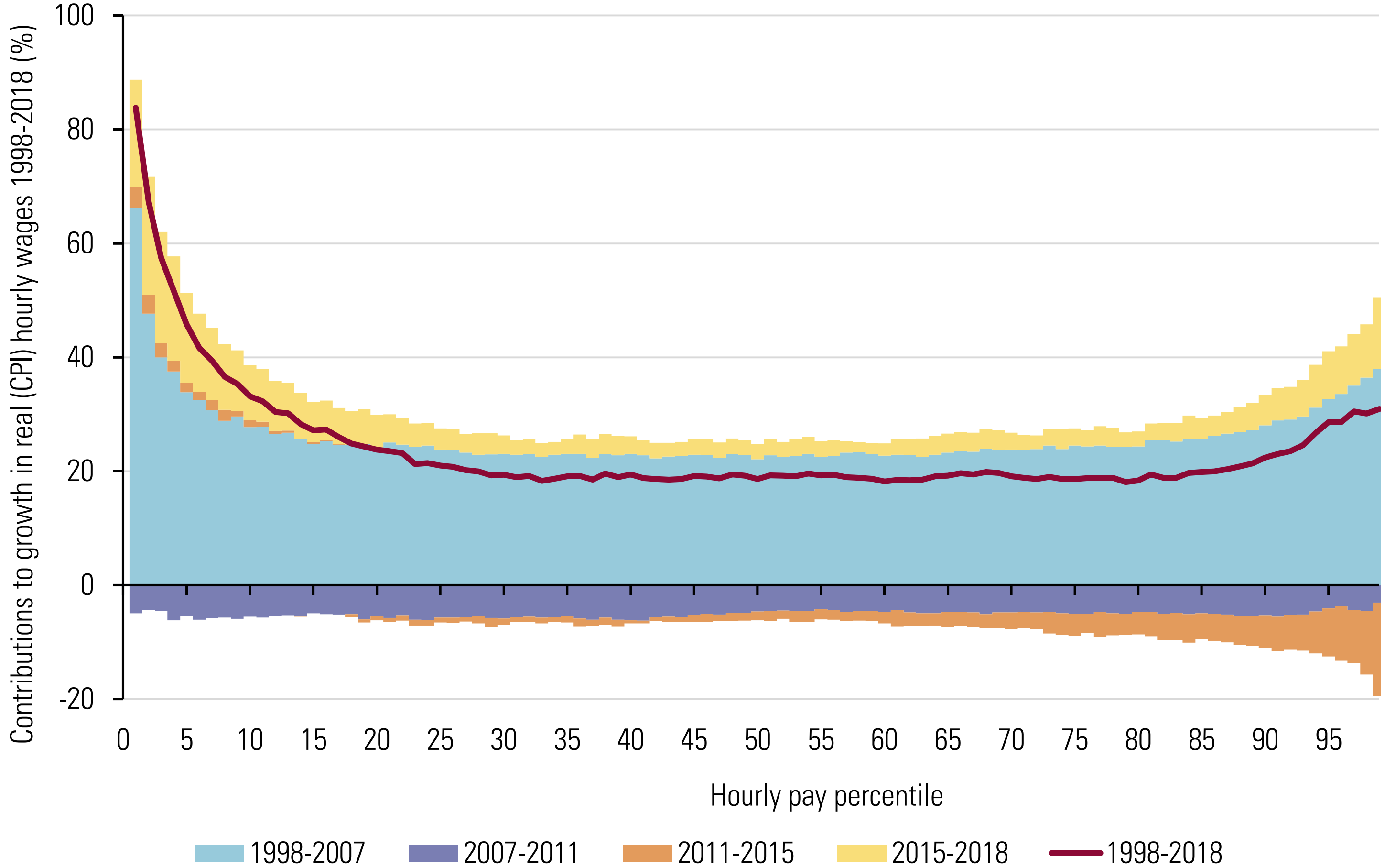
Source: LPC analysis using ONS data. ASHE (1999-2018) data includes apprentices. Differences in data collection methodologies create discontinuities.

…and better pay increases for the lowest paid workers than anyone else

Because of the rising minimum wage and the 'spillovers' it creates, wages have grown faster for the lowest paid since the introduction of the NMW in April 1999.

Since then, wages for the bottom 4% of workers have grown by at least half, against growth of less than a fifth for workers between the 30th and 85th percentile.

For 20 years now, low-paid workers have consistently seen higher hourly wage growth than other groups. The exception to this was the period during and just after the financial crisis, when we recommended smaller increases to protect employment. This meant that wages at the very top increased slightly faster than those for low-paid workers.



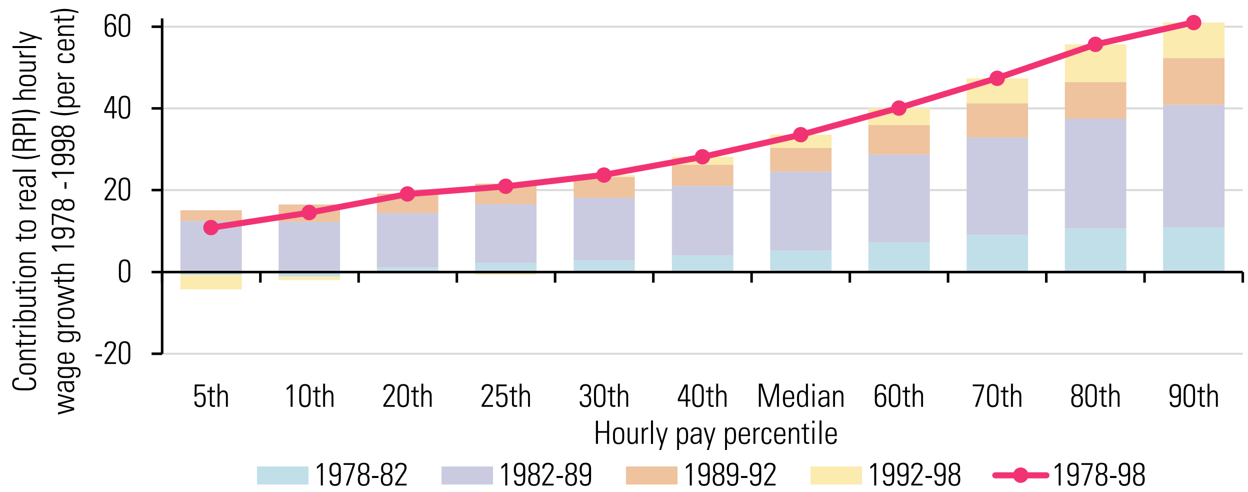
Source: LPC analysis using ONS data. ASHE (1998-2018). Data includes apprentices.

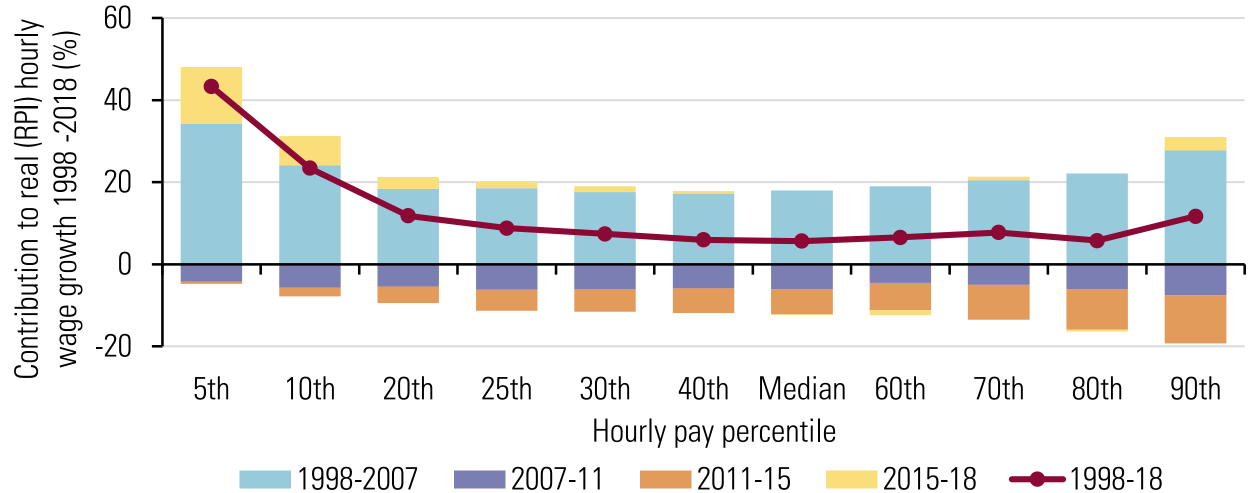
The minimum wage reversed historic trends for low-paid workers

Between 1979 and 1998, average annual wage growth for workers aged 22 and over was consistently highest for top earners, and was weakest for the lowest paid. However, in all the periods after the introduction of the NMW in 1999 growth at the 5th percentile has been consistently faster than at the median and the 90th percentile.

The charts on the right show how in the 19 years before the introduction of the NMW (top chart), hourly wages consistently grew faster higher up the pay distribution. In the first 19 years of the NMW/NLW on the other hand (bottom chart) the lowest paid experienced faster growth than at the median and the 90th percentile.

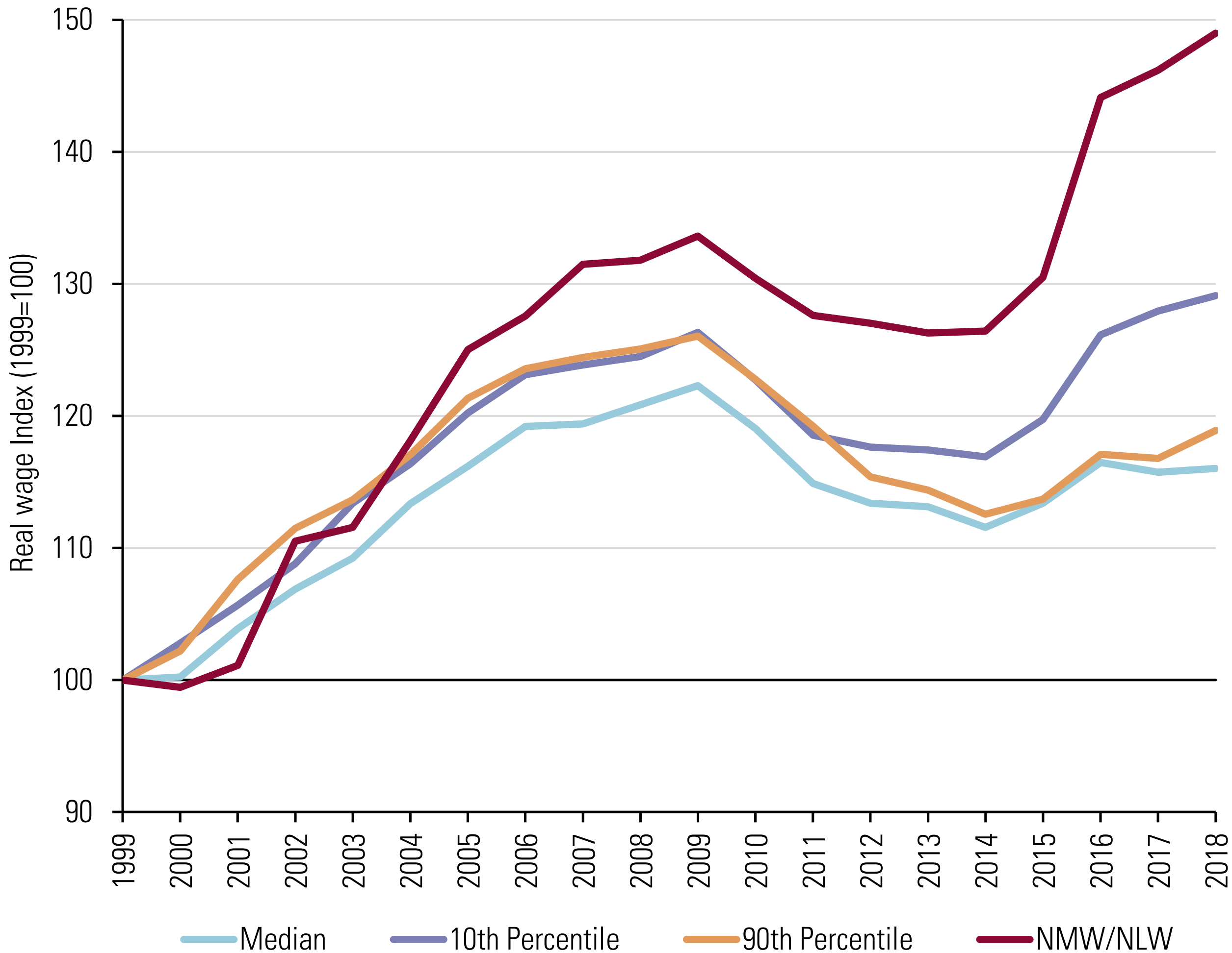
Spillovers from the NMW/NLW have led to periods where growth at the 10th percentile of the wage distribution has been above all other deciles.





Source: [1] LPC analysis using ONS New Earnings Survey (1978-1997), ASHE (1997-1998) and RPI (CDKO). NES and ASHE data includes apprentices. [2] LPC analysis using ONS ASHE and RPI (CDKO). Data includes apprentices.

The minimum wage protected workers' real pay in the recession and recovery



During the recession the LPC responded to changing economic conditions by recommending more cautious increases in order to protect jobs.

The financial crisis was followed by one of the longest reductions in real wages in recorded history, with the 10 years since the financial crisis began described as a 'lost decade' for pay by the Bank of England. The chart shows that median hourly earnings have still yet to recover to their pre-recession level.

However, the NMW limited workers' exposure to falls in real wages. The real hourly pay of NMW workers began to recover before the median worker (2013) and, with the introduction of the NLW in 2016, recovered more quickly. The real hourly pay of minimum wage workers has more than surpassed its pre-recession peak, while pay of the median worker is still well below.

LPC £

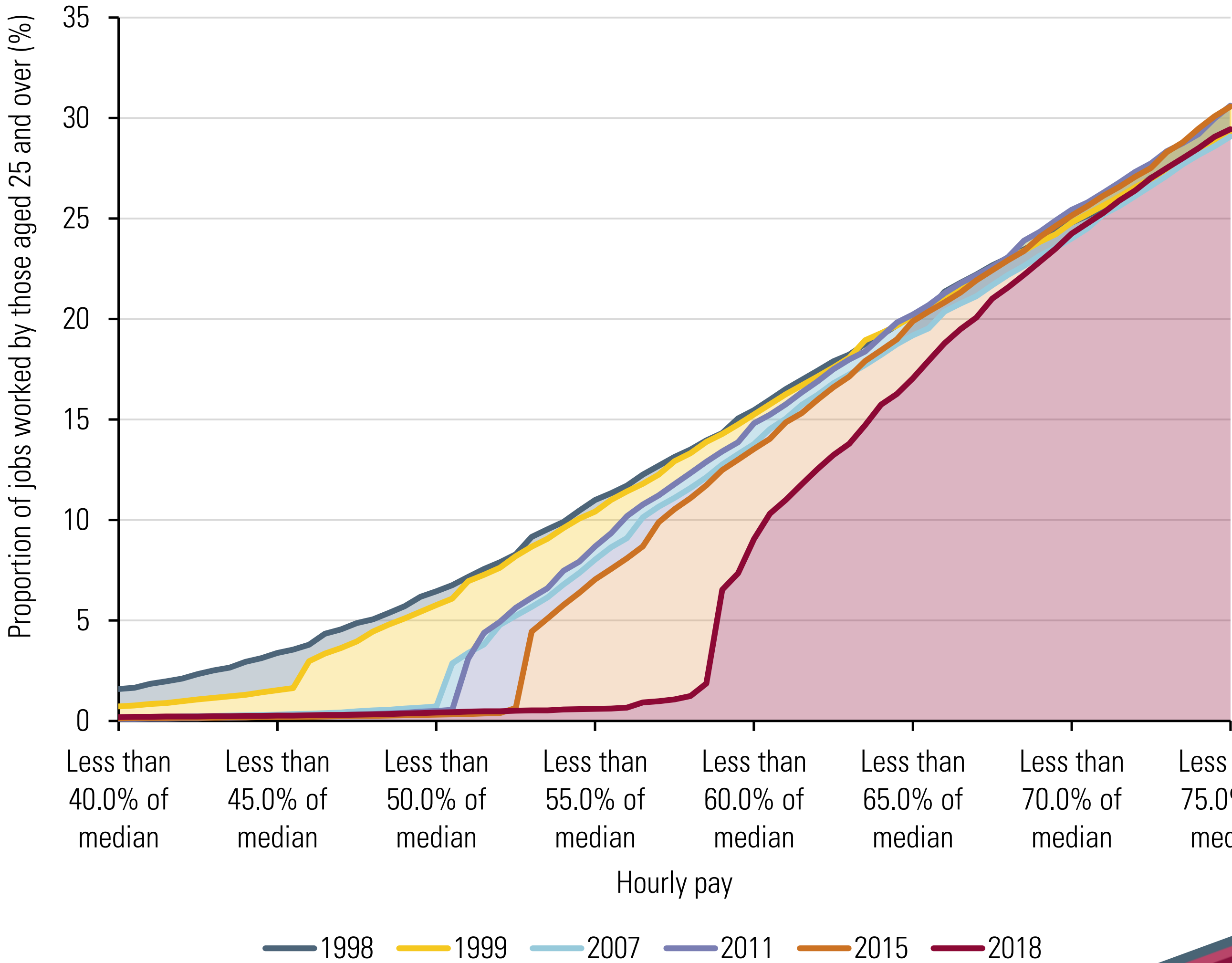
Source: LPC analysis using ONS data. CPI (D7BT) and ASHE (1999-2018). Data covers jobs held by workers over 25 and includes apprentices.

Earnings are more closely compressed because of the minimum wage

Despite the large changes at the bottom of the wage distribution, there has been far less further up, suggesting the distribution is becoming compressed. The number of jobs paid between 70% of the median and the median has stayed fairly constant since 1998.

In 1998, 150,000 workers of all ages earned less than £2 an hour (£2.96 in 2018 prices) and 3.4% of jobs were paid less than 45% of the median hourly pay. When the NMW was introduced, this proportion more than halved. In April 2018 only 1.2% of jobs paid less than 58% of median pay, down from 13.3% in 1998.

In line with our current remit from Government, we intend to set the pay floor at 60% of median earnings in 2020, subject to sustained economic growth. In 1998, 15%, or three million workers earned below this threshold.



Source: LPC analysis using ONS data ASHE 1998-2018. Data includes apprentices.

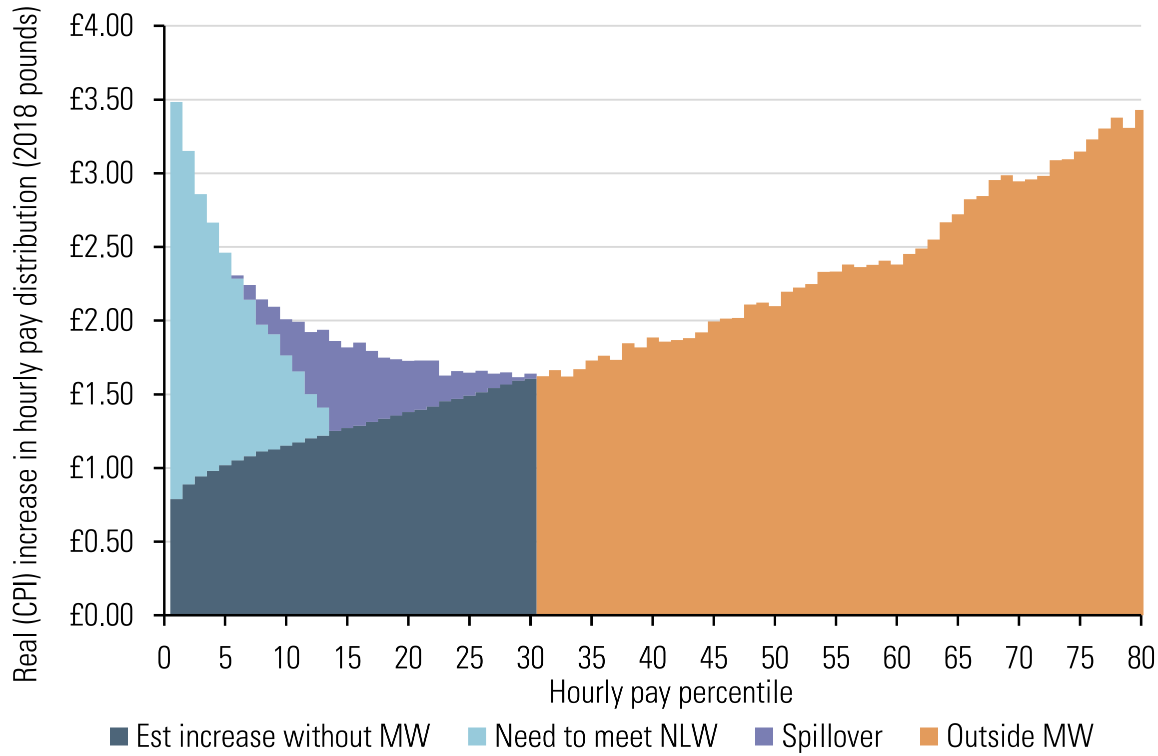
Up to 30% of all workers have benefited directly and indirectly from the minimum wage

We estimate that nearly a third of all workers have benefited from the direct and indirect effects of the minimum wage. Workers earned around £8bn more in 2018 than they would have in the absence of the minimum wage. The total increase in pay over the first 19 years of the NMW/NLW sum to £60bn in 2018 prices.

We estimate how much earnings would have increased without a minimum wage by looking across the pay distribution. Assuming that jobs in the bottom third would have experienced pay growth as fast as those in the next half of the distribution, we have estimated the hypothetical increase without the NMW/NLW (the dark blue area to the right). As slide 14 shows, before the NMW pay at the bottom grew more slowly than pay in the middle of the wage distribution, so this may be a conservative assumption.

The light blue area represents the proportion of the actual increase in pay which was driven purely by the minimum wage. This affected the bottom 14% of jobs.

But overall, jobs up to the 30th percentile saw faster pay growth than they otherwise would have due to 'spillovers' (the purple area), where employers chose to maintain, or slow the decrease in, pay differentials between jobs and those paid at the pay floor.



Around 16% of jobs have seen a real pay increase of at least 50p more per hour than they would have in the absence of the minimum wage with a further 11% having seen pay increases of 10p and over.

Overall, around as many jobs have benefited indirectly (16%) from the minimum wage as have directly benefited (14%). This equates to around seven million people in 2018.

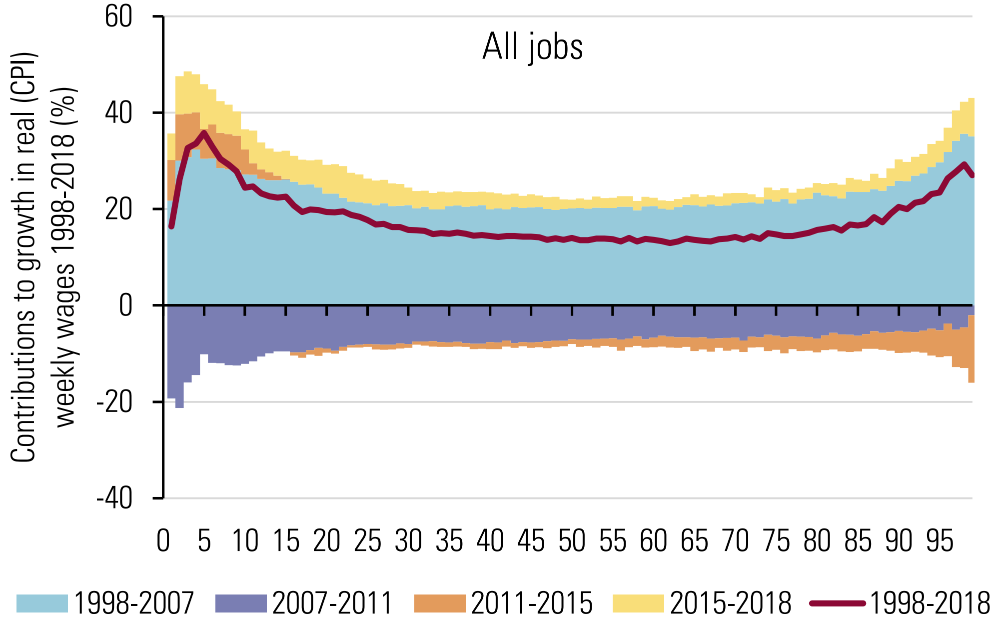
Source: LPC analysis using ONS data. ASHE 1998-2018. Data includes apprentices.

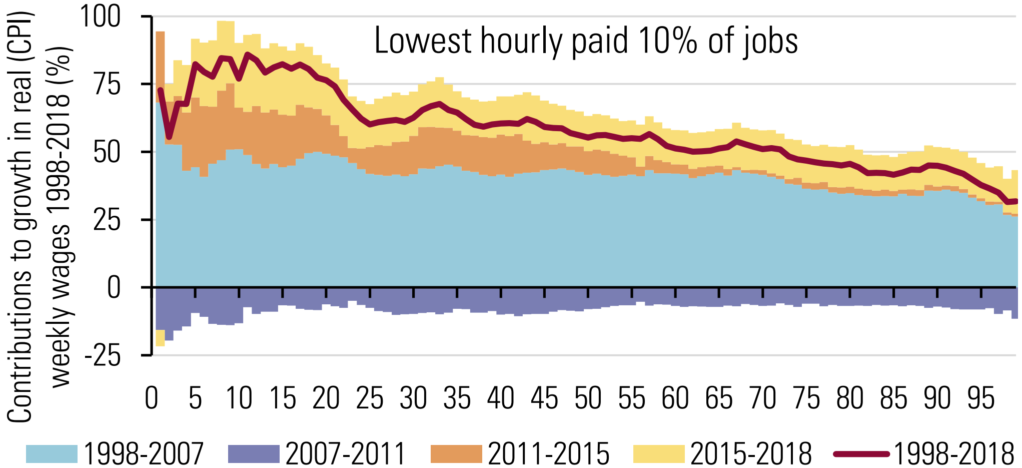
Weekly pay has also increased faster than average for low-paid workers

Weekly pay matters more than hourly pay for workers' living standards. If the NMW led to falling hours of work, then workers would potentially be doing worse overall. Looking at real weekly pay, we see that since 1999, wages have grown faster for jobs at the bottom of the pay distribution than for those in the middle.

The relationship between level of pay and growth is flatter for weekly pay than for hourly pay. Part of the reason for this is that the lowest weekly paid did worse in the immediate post-crisis period, with falls of 10-20% for the lowest decile, versus 7% at the median.

However, some minimum wage jobs will appear higher up the weekly pay distribution than jobs that pay more an hour, but involve fewer hours. Therefore the chart on the right is not the best way to look at any effects from minimum wages on weekly hours.





Instead, if we look at the bottom 10% of jobs by hourly pay (chart on the left) we can see that there has been strong weekly pay growth for this group in every period, except the immediate post crisis period where pay fell by a similar amount to other groups.

Between 1999 and 2018, the bottom 10% of hourly paid jobs saw real weekly wage growth of over 50% on average, while for the median weekly paid jobs pay grew by just 14%.

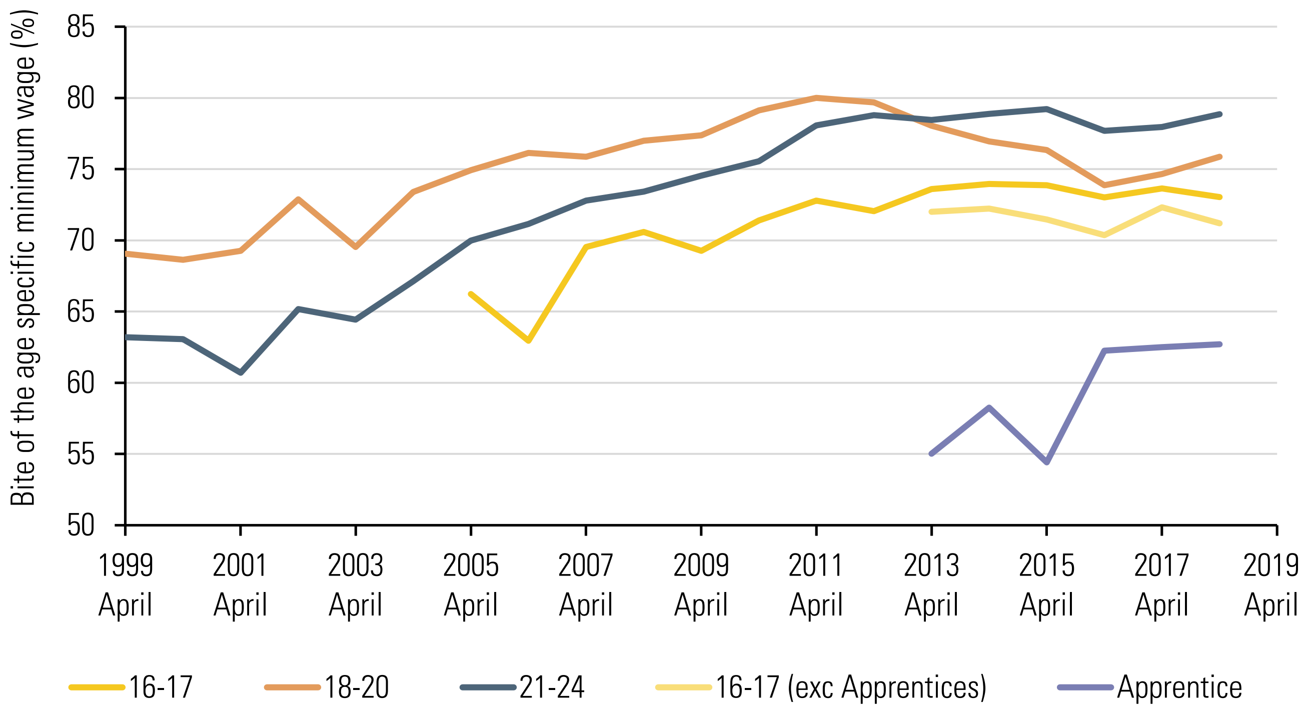
Source: LPC analysis using ONS data. CPI (D7BT) and ASHE. Data includes apprentices.

Protecting youth employment has been an important priority

At the outset, the LPC recommended a lower rate for workers aged from 18 to 21. Younger workers experience worse 'scarring' effects: the long-term negative earning impacts from periods of unemployment. These lower rates recognise the higher risks involved in our decisions around younger workers.

Economic research finds that younger workers are more susceptible to becoming unemployed during downturns. In the aftermath of the financial crisis, we recommended lower increases to youth rates than the main rate, to protect youth employment. The recovery has allowed us to recommend larger increases in the youth rates in recognition of the improving situation for younger workers.

Similarly, when the youth rates were introduced it was also argued that that younger workers have lower levels of experience than older workers and that experience is linked to productivity.



Minimum wages for younger workers have increased both in real terms and in reference to median wages since their introductions.

The bites of the minimum wages for younger workers increased particularly quickly up to 2011 and have been relatively flat since then, while falling for 18-20 year olds, who have seen relatively strong pay growth across the distribution in recent years, partly boosted by the NLW.

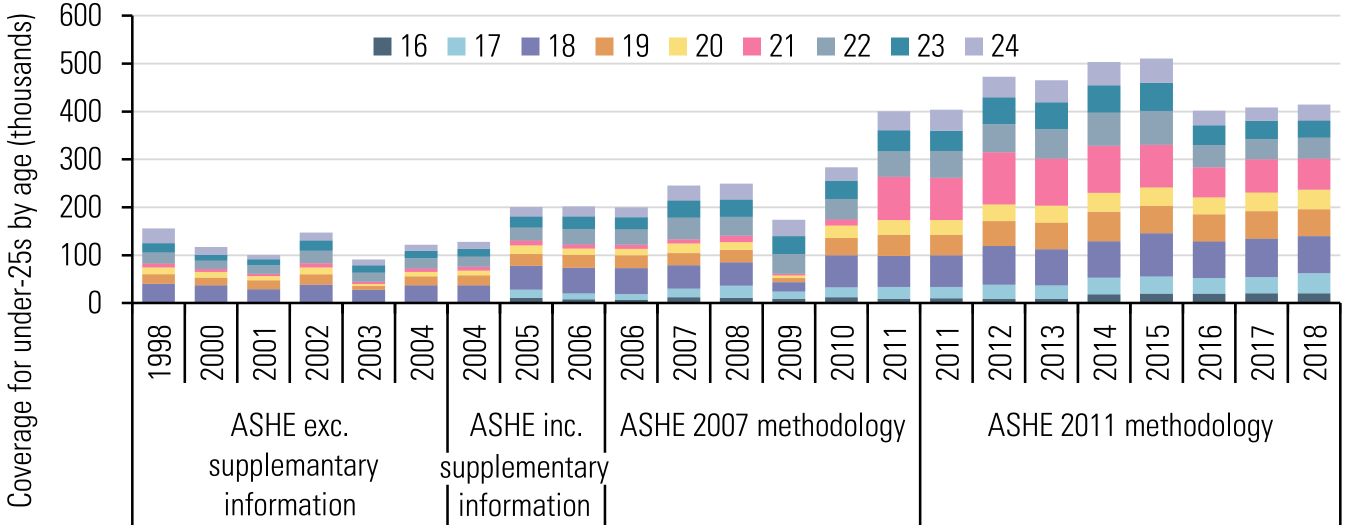
Source: LPC analysis using ONS data. ASHE. Data includes apprentices unless otherwise stated.

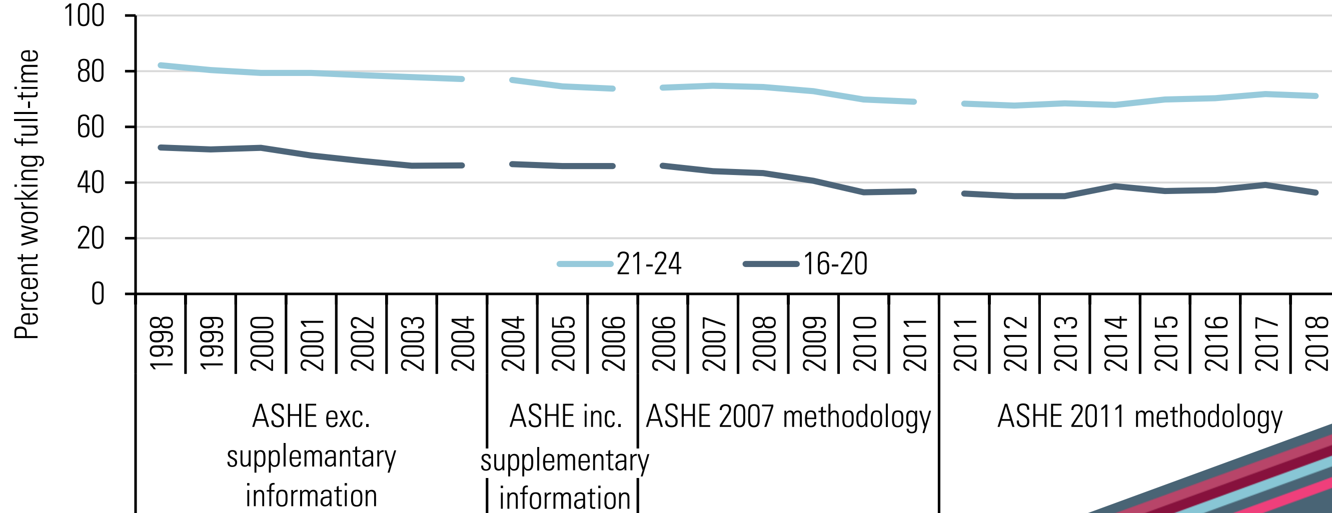
Far more young people are affected by the minimum wage than in 1999

These increases in the youth rates and the extension of minimum wages to younger age groups have led to a large increase in the number of younger workers covered. There was a slight fall in 2016 due to the introduction of the NLW taking some workers aged 21-24 above the 21-24 minimum wage.

There have been changes in the labour market for younger workers. In 1998 a small majority of workers aged 16-20 worked full-time. By 2018 that had fallen to slightly more than a third, mainly due to increases in educational enrolment. The proportion of 21-24 year-olds who are working part-time has also decreased over the period, but by a smaller amount.

Linked to this, there has been a slight rise in the proportion of workers aged 16-20 who work in low-paying retail and hospitality occupations over this period, at the expense of higher-paying occupations.





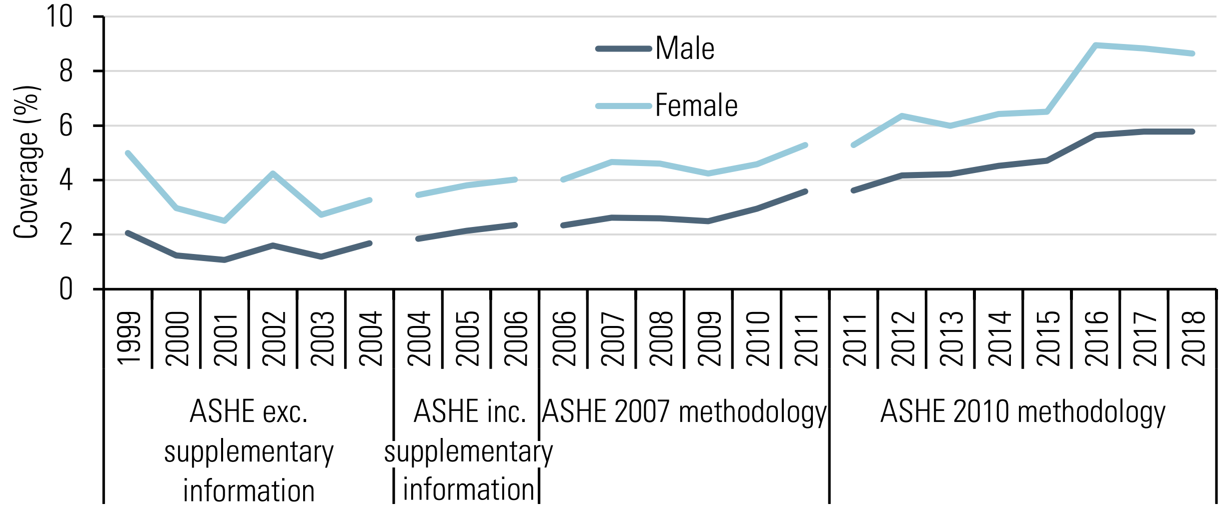
Source: [1] and [2] LPC analysis using ONS data. ASHE (1999-2018) data includes apprentices. Differences in data collection methodologies create discontinuities.

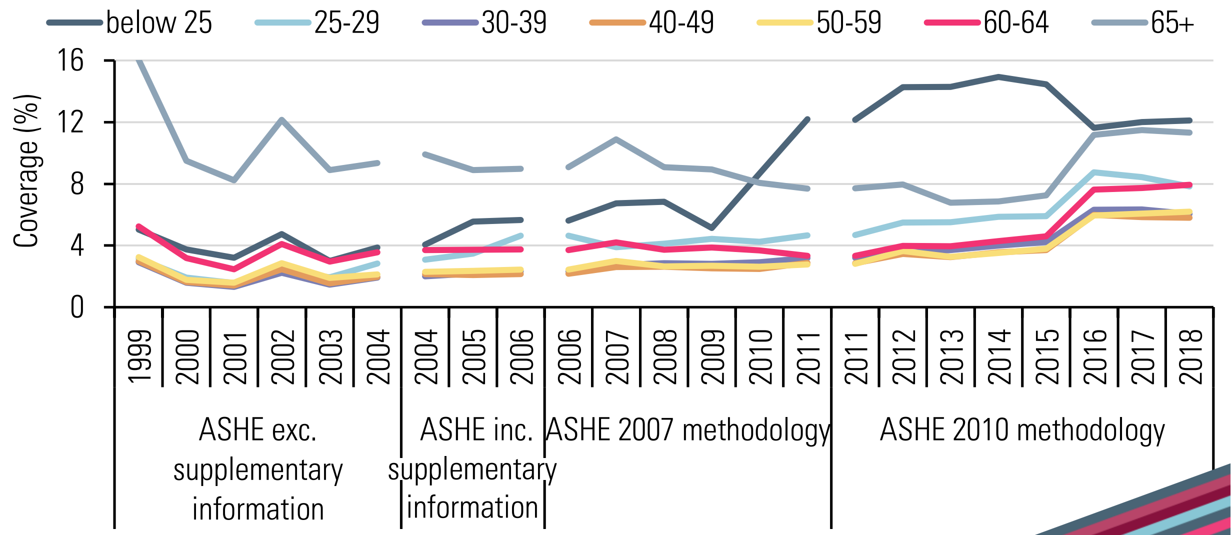
The youngest, the oldest and female workers gain most from the minimum wage

A higher proportion of women than men continue to be paid the minimum wage, but the relative difference has fallen over the first 19 years of the minimum wage. In 1999, women were almost two and a half times more likely than men to be paid the minimum wage. By 2019, this had fallen to one and a half times more likely.

The number of men paid the minimum wage trebled in this period as coverage increased, while the number of women doubled.

Between 1999 and 2018, the proportion of workers paid the minimum wage increased in all age groups, with the exception of those aged 65 and over, who experienced record coverage in 1999. The number of minimum wage jobs held by workers aged 65 and over actually doubled in this period, but the total number of workers in this age group tripled.





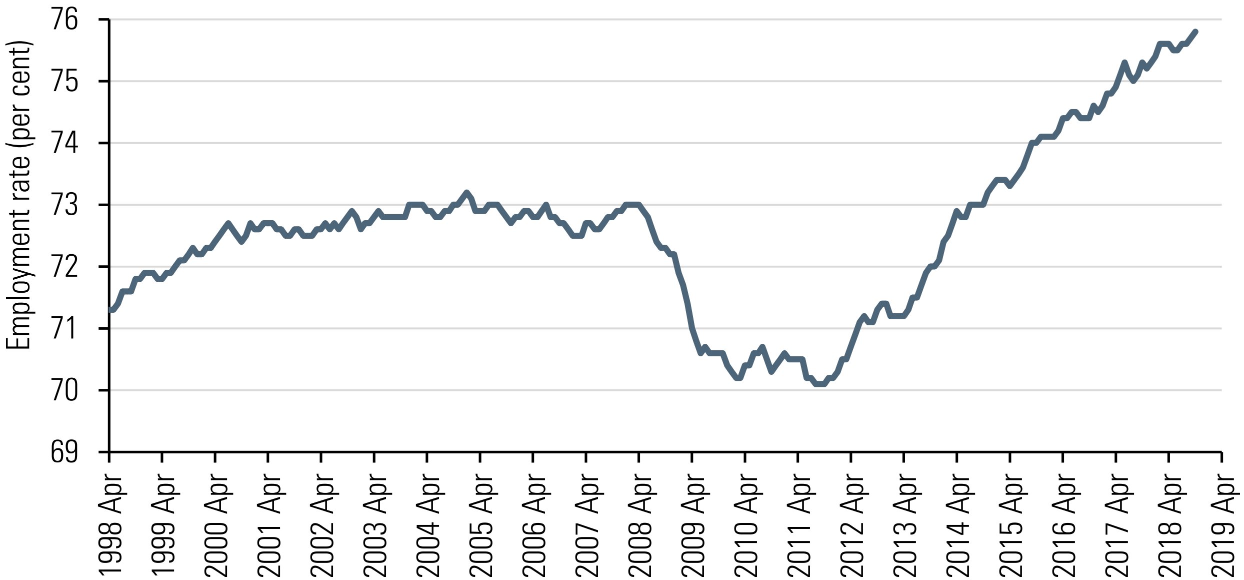
Source: [1] and [2] LPC analysis using ONS data. ASHE (1999-2018) data includes apprentices. Differences in data collection methodologies create discontinuities.

We have found little evidence of negative effects on jobs

Since 2000, we have commissioned over 30 research projects into the effect of the minimum wage on employment, looking at changes in employment levels and in hours worked. Researchers have used a variety of approaches to estimate the impact of the minimum wage. These include comparing workers whose pay was directly increased by the NLW, with those whose pay was above the new minimum; and using geographical variations to try to isolate the impact of the minimum wage.

Overall, none of the research that we have commissioned has shown strong evidence that minimum wages have led to falling employment. While some papers have indicated some small effects for some groups of workers, these haven't been consistently replicated and no study has found employment effects for all low-paid workers.

The research we have commissioned has found some evidence of falling hours in response to higher minimum wages, but again the findings are not consistent across different specifications, and the effects are generally small.



Along with our commissioned work, other economists have examined the employment effects of the NMW in the UK and have for the most part found no impact. This is consistent with international evidence suggesting that carefully set minimum wages do not have noticeable employment effects. While some jobs may be lost following a minimum wage increase, increasing employment elsewhere offsets this.

Nonetheless we continue to examine the labour market to see if we, or others, can find any negative effects on jobs from the minimum wage. Instead our evidence suggests firms have responded in other ways to the NMW.

Source: LPC analysis using ONS data. Employment rate (aged 16 to 64, seasonally adjusted) (LF24).

How have employers responded?

It is clear that the minimum wage has increased employers' wage bills, but our evidence suggests that most have not responded by reducing employment. While some have reduced the number of hours they offer or slowed hiring, this has been offset by increases elsewhere.

Most employers talk instead about responding to the increasing wage bill through five main measures:

1. Lower profits
2. Higher prices
3. Cuts to non-wage labour costs
4. Restructuring their workforce and pay structures.
5. Increasing output through improved productivity and work intensification.

Employers' choice of strategy is driven by the nature of their firm, their industry, the level of competition they face and wider developments in the economy.

1. Lower profits

Employers have told us that they have had to accept lower profits as a result of minimum wage increases. This is because they are either unable to raise productivity in line with increases or feel they cannot raise prices or cut other costs to balance NMW increases.

Some studies have indicated that minimum wages have reduced profits in certain industries, but other studies have found no impact. There may have been some impact on firm entry, but the evidence is mixed.

2. Higher prices

Some employers have raised prices in response to NMW increases, passing on increased costs to consumers. However, many employers have told us they have limited ability to pass on these costs, either because doing so would undermine their competitiveness or because they are effectively 'price-takers', whose prices are determined by other factors. This latter group includes suppliers to large retailers, and, more recently, employers reliant on government funding.

When the NMW was introduced, some critics argued that it would have significant inflationary effects, but the evidence has not borne this out.

One piece of research found that the introduction of the NMW resulted in an increase in prices, but that subsequent increases did not have the same effects. Our internal analysis suggests a similar story with the introduction of the NLW.

How have employers responded?

3. Cuts to non-wage labour costs

We have heard from some employers that they have made changes to manage the risk of increased costs, and some workers perceive that there is a trade-off between increases in pay and a deterioration in working conditions and non-wage benefits.

The use of non-standard forms of employment, including zero-hours contracts and low-paid self-employment, has grown in the last 20 years[1]. But it is not clear to what extent the NMW has been a factor in this, especially in relation to other consequences of the recession.

4. Restructuring workforces and pay structures

In our consultations and via research, we have heard about the minimum wage driving changes to employers' pay structures. This has meant fewer tiers of pay, altered differentials between different tiers and fewer geographical pay zones.

We have seen a significant compression of the pay distribution – likely driven by reduced differentials – since the NLW was introduced. Some pre-NLW research found that differentials were cut in response to large increases in the minimum wage but restored in years with smaller increases.

5. Increasing productivity and work intensification

Employers often say that they intend to raise productivity in response to minimum wage increases; in the long term, this is the most sustainable way to manage the increased cost. However, we have found few specific examples in our consultations of employers succeeding in raising productivity, and work intensification (asking workers to work harder) seems a worryingly common response.

Some studies have suggested a positive association between minimum wages and productivity, but this has not been a consistent finding. Similarly, there is limited evidence that minimum wage increases have encouraged employers to invest in more training or development for their workforce.

Other effects

While we hear that some firms have had to cut back on business investment as a consequence of the minimum wage, our research has indicated that there has been no clear impact on investment. At any given time, there are a wide range of factors influencing investment decisions, and while the minimum wage is likely to be one such factor, the evidence does not suggest it is the most important.

[1] ONS 2018. Trends in self-employment in the UK, 7 February.

What they say now

Winning support

The LPC has "proved to be the most successful tripartite body established in the last three to four decades." Ian McCartney - Minister of State at DTI in 1997, speaking in 2017[1]

As early as 2000, the Conservative opposition had accepted the minimum wage. In the same year more than half of large employers responding to an Ipsos Mori poll were positive about the policy and only a fifth opposed it.[2]

In 2010, the NMW was voted the most successful policy of the previous 30 years in a survey of Political Studies Association members by the Institute for Government. [3]

The introduction of the NLW – and the Chancellor's recent statements on the minimum wage beyond 2020 – show the continued relevance of the policy.

International influence

"The NMW has generally been a great success, both in terms of achieving its goals and the quality of the process by which it is delivered. A number of other countries have drawn on the UK experience in setting up or revamping their own minimum wage systems." TUC[4]

A testament to the regard the LPC is held in is the fact that it has been copied elsewhere. The Irish Low Pay Commission is closely modelled on the UK's, and the German Minimum Wage Commission was set up in 2015 on similar lines. Both have involvement of social partners from employer and employee backgrounds, and place great emphasis on expert advice and grounding decisions in evidence.

Alan Krueger, one of the figures who has had the most influence on the debate around minimum wages, wrote in the New York Times in 2015[5] that the LPC's evidence suggests that it would be possible to raise the US federal minimum wage.

Intensifying debate

"The success of the Low Pay Commission points to the importance of technocrats rather than politicians setting wage floors." The Economist[6]

The continued focus on the NLW and its future pathway underlines the relevance of the LPC's work. Debate around the appropriate level of the minimum wage is likely to become more sustained, and questions about how far it can be raised without affecting employment will be renewed. The role of the LPC's social partnership, taking a consensual view on the policy and monitoring and assessing its effects, will continue to be an important part of the minimum wage's success.

[1] Politics First 2017. Ensuring the minimum for workers, 30 November. [2] . Ipsos Mori 2000. Business on Blair. 26 September. [3] Institute of Government, 2010. Policy making: what worked? 2 December. [4] TUC submission to the LPC 2018 consultation. [5] New York Times 2015. The minimum wage how much is too much 9 October. [6] The Economist 2012. Free exchange, 24 November.

LPC £

The 2019 rates

The Low Pay Commission recommended the rates in the chart on the right to apply from 1 April 2019.

The Government accepted the LPC's recommendations in full in the Autumn Budget 2018.

Our on-course NLW rate for 2020 is £8.67.

[Read our full 2018 Report on our website.]

LPC consultation

We recently launched our 2019 written consultation. We are gathering evidence to support our recommendations for rates to apply from April 2020. We want to hear from businesses, workers, and anyone else with an interest in the minimum wage about your views on the rates.

The Chancellor recently announced the government's ambition to end low pay and appointed Professor Arin Dube to review international evidence on the effects of minimum wages. We are therefore also seeking views on the future of the minimum wage beyond 2020.

[For more information on our consultation visit our website], where you can also [read about our 2019 visits programme].

NLW and NMW rates, April 2019-March 2020

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