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Dear Colleague

##### INVITATION TO TENDER FOR RESEARCH FOR THE 2015 REPORT

The Low Pay Commission (LPC) has an ongoing remit to monitor the operation of the National Minimum Wage, and to assess the impact of increases in the level of the minimum wage. It undertakes continuous evaluation of the impact of the introduction and subsequent upratings of the minimum wage on the sectors and groups of workers most affected, and on the labour market more generally. The LPC draws upon a range of evidence in making its assessment, including a number of research projects commissioned specifically to inform its recommendations.

The Low Pay Commission invites tenders for research that the Commission considers to be of particular importance this year. These topics cover a wide range of issues:

15/1 the impact of the National Minimum Wage on employment and hours;

15/4 an examination of the impact of the National Minimum Wage on earnings, the bite and wage differentials; and

15/5 the impact of the National Minimum Wage on weekly take-home pay and household/family income, including the interaction of the NMW with the tax and benefits system.

The LPC is particularly keen to maximise the budget available for research. We would welcome researchers who would prefer to explore just some of the issues raised in these tenders. Information about previous LPC research projects is available on our website at <https://www.gov.uk/government/organisations/low-pay-commission> (or our archived research database at <http://webarchive.nationalarchives.gov.uk/20130708092703/http://lowpay.gov.uk/lowpay/rep_research_index.shtml>). Please note that we intend to issue a further invitation to tender for research in the spring when our budget for 2014/15 and onwards has been confirmed.

Please find enclosed the detailed tender specifications and an application form. I would be grateful if you could circulate this invitation as widely as possible within your organisation and to any other interested parties. The specifications and the application form will be available on our website.

You must bear all the costs associated with the preparation and submission of your bid. The LPC is looking to commission, in full or in part, tenders for research that best meet its research objectives and represent the best overall value for money, but reserves the right not to award a contract. LPC standard terms and conditions of contract for services apply and a copy of these is available on request. **We will deem submission of the tender as acceptance of these terms and conditions**.

All people wishing to tender should complete the enclosed application and CV forms (one for each proposal), and return them to me at [tim.butcher@lowpay.gov.uk](mailto:tim.butcher@lowpay.gov.uk), copied to [helen.connolly@lowpay.gov.uk](mailto:helen.connolly@lowpay.gov.uk) by no later than **5pm on 31 January 2014**. Alternatively, you may send applications to the postal address given above. Please mark envelopes with the words ‘research tender’. Electronic applications are preferred.

We are happy to discuss the work of the Low Pay Commission and the tender process and you can contact me on 020 7271 0453 or Helen Connolly on 020 7271 0455.

Yours sincerely



Tim Butcher

Chief Economist and Deputy Secretary

Low Pay Commission

Enclosures: Invitations to Tender – references 15/1 and 15/4-5, Application Form, CV Form

**INVITATION TO TENDER Reference number: 15/1**

**THE IMPACT OF THE NATIONAL MINIMUM WAGE ON EMPLOYMENT AND HOURS**

**Project Summary**

1. The Low Pay Commission (LPC) again wishes to explore the impact of the National Minimum Wage on key variables in the economy. The LPC invites tenders for an econometric study of the impact of the minimum wage on employment and hours, focusing especially on the recent upratings that have occurred in the deepest recession since the 1920s and the ensuing weak recovery. Of particular interest would be the effect on employment and hours outcomes in the low-paying sectors and for the low paid. We would also be interested in whether the impact has differed between age groups.

**Background**

2. The minimum wage has been in place for more than fourteen years. Over that time the LPC has monitored its impact on employment in the aggregate economy, and in low-paying sectors in particular, using a number of data sources and methodologies. We have examined in detail data from national surveys to give trends in wages and employment across different sectors and groups of workers; conducted our own surveys of firms in low-paying sectors; commissioned research in particular areas of interest; and consulted a wide range of employer organisations, trade unions, research organisations and individuals through meetings and visits.

3. An important part of assessing the impact of the minimum wage is to examine the effect on the labour market. This is a sensitive area because critics of minimum wages often cite the adverse employment effects resulting from them. The LPC’s 2013 Report contains our most recent assessment of the impact of the minimum wage to date. The report analyses the impact of the minimum wage on earnings and pay differentials; employment and hours; training and productivity; profitability and prices; and business start-ups and failures. Overall it found that the steady rise in the minimum wage meant that more employers than previously were affected, both directly, as more employees were being paid at the minimum wage, and indirectly, as it exerted a growing influence on pay-setting and pay structures. However, the research conducted (commissioned by the Commission and independent research) suggests that the minimum wage has had limited adverse effects on employment levels but that businesses may have adjusted hours, reduced non-wage benefits, increased prices to their customers and squeezed profit margins.

4. In previous research, five general approaches have been adopted by researchers to identify employment and hours effects: the use of aggregate, time series data; the use of individual data; the use of the geographical variation in coverage and bite; the use of industry or firm data; and case studies.

5. The international research (OECD, 1998; Neumark and Wascher, 2004 and 2008) using time series data across countries has generally showed that minimum wages have had a statistically significant negative impact on employment. However, the general consensus of the research conducted in the UK finds no such strong results. Indeed Dolton and Rosazza Bondibene (2011 and 2012) questioned the findings of this international evidence, which they concluded was dependent on specification and definition of the minimum wage. However, they did find strong negative effects on employment for young workers in their study across countries. Using time series analysis of industries, Dickens, Machin and Manning (1999) and Dickens and Dolton (2011) found no evidence of a negative impact of (Wages Council set) minimum wages on employment in the UK in the 1980s or 1990s. Indeed, both studies found some positive employment effects.

6. Data on individuals have been used by researchers to assess the impact of the minimum wage on employment and unemployment. In general, these studies have again found little adverse impact of the minimum wage on employment. Stewart (2001, 2003, 2004a and 2004b) investigated the impact of the introduction of the minimum wage; Dickens and Draca (2005) assessed the 2003 and 2004 upratings; Dickens, Riley and Wilkinson (2009) looked at the 2003-2006 minimum wage increases; Mulheirn (2008) also investigated the 2006 upratings; and Bryan, Salvatori and Taylor (2012) and Dolton, Rosazza Bondibene and Stops (2012) looked at the more recent upratings covering the period including and since the 2008-09 recession. All of these studies found no significant adverse effects on employment. In contrast, Dickens, Riley and Wilkinson (2012) found some negative effects on the employment of female part-time workers on introduction of the minimum wage and during the recession in some specifications of their modelling.

7. Taking advantage of variations in pay across geography, researchers have used spatial analysis to investigate the impact of the minimum wage on employment. They have compared the probability of employment or employment growth in the lowest wage areas with the probability of employment or employment growth in slightly higher wage areas. In general this research has found very little impact of the minimum wage on employment. Stewart (2002) found some weak but not statistically significant evidence of a fall in employment as a result of the introduction of the minimum wage. Dickens, Riley and Wilkinson (2009) found no effect of the upratings between 2001 and 2006. Dolton, Rosazza Bondibene and Wadsworth (2009) found no effect on employment over the period 1997-2007. Indeed those last two studies found evidence that unemployment had fallen in particular as a result of the large upratings between 2003 and 2006. In the two most recent studies covering the entire period from 1999-2011, Dolton, Rosazza Bondibene and Stops (2012) and Dickens, Riley and Wilkinson (2012) also found no adverse effects on employment. In contrast to all these previous findings, and using data on firms and industries rather than individuals, Galinda-Rueda and Pereira (2004) found that the minimum wage had adversely affected employment growth in the lowest-paying areas. Experian (2007), also using industry data, found no adverse employment effects of the 2003 and 2004 upratings of the NMW. Although their research was focused on the impact of the minimum wage on competitiveness, Riley and Rosazza Bondibene (2013) using data on firms found little evidence that the introduction of the NMW had any effect on employment, and this was also the case during the recession.

8. As well as employment, researchers have also investigated the impact of the minimum wage on hours. There appears to be more evidence of effects with regards to hours than employment. Stewart and Swaffield (2004) found significant reductions in hours as a result of the introduction of the minimum wage, although an earlier study by Connolly and Gregory (2002) found no such strong effects. Nor did Robinson and Wadsworth (2007) in their study of second jobs and hours worked. Dickens, Riley and Wilkinson (2009 and 2012) and Bryan, Salvatori and Taylor (2012) also found reductions in hours. However, none of these found that the reductions in hours were sufficient to reduce weekly earnings.

9. One of our commissioned projects for the 2013 Report looked at the impact of the NMW on employment, hours and unemployment across the whole economy. Using individual data from the LFS with supplementary geographic information from ASHE, Bryan, Salvatori and Taylor (2013) found little evidence that the minimum wage had generally affected employment retention in the period before or during the recession. This was in line with previous research. They did however find some evidence of significant effects on men in particular upratings but these were both negative (the 2001 uprating) and positive (the 2006 and 2011 upratings); and they were also sensitive to model specification. No such evidence was found for women. For young people, especially for those most affected by the NMW, there was some evidence of a reduction in employment retention prior to the recession but this finding could not be replicated in the period since the start of the recession.

10. In work commissioned for the 2012 Report, Bryan, Salvatori and Taylor (2012) had found tentative evidence that the 2010 uprating had led to a reduction in hours, particularly among young workers. Their latest research (2013) did not confirm that finding and concluded that they could find no systematic effect of the NMW on hours worked by adults across time or even during the recession. In general, they found small but statistically insignificant negative effects on hours worked for men before the recession but small and generally positive effects since the start of the recession. They found no consistent or significant effects for women. In their previous study, they had found some evidence of a negative effect on hours worked among youths, and that this was exacerbated during the recession. This new research also found some, albeit weaker, evidence of a reduction in hours. They found estimates of negative effects during the recession, reducing hours by up to two hours a week but these were not statistically significant. However, these results were significantly different to those in the pre-recession period, implying that there was some weak evidence that the NMW reduced basic hours for young people during the recession relative to the pre-recession period.

11. Using three different methodologies, the research found that the minimum wage generally had no effect on the probabilities of unemployed adults entering work. From the geographic analysis, they found evidence that the NMW had increased job entry rates in the mid-2000s with some weak evidence that this had reversed during the recession. The pre-recession results were consistent with previous findings from Dolton, Rosazza Bondibene and Wadsworth (2009), and Dickens, Riley and Wilkinson (2012). However, they found no effects when using predicted entry wages or when estimating job entry probabilities, just small positive effects on female entry into minimum wage jobs during the recession. Overall, these findings were not robust to specification and they concluded that there was no empirical support for the NMW adversely affecting job entry

12. As part of our continuing evaluation, we wish to further assess the impact of the introduction of minimum wage and the latest upratings on the demand for labour – covering effects on both jobs and hours, particularly during and after the severe economic recession that the UK has just experienced.

**Aims and Objectives**

13. The aim of the project is to investigate the effect of the National Minimum Wage on the employment and hours outcomes of low-paid workers and firms in low-paying sectors. The LPC is particularly interested in how the recession and its aftermath have affected the impact of the minimum wage on employment and hours. Although the project should focus its analysis on the impact of the recent upratings of the National Minimum Wage since the onset of recession (those since March 2008), it should also consider any long-term effects by assessing the whole period since introduction in 1999.

14. There are four different levels of the NMW: the adult rate of the NMW covers workers aged 21 and over (prior to October 2010, it covered those aged 22 and over); the Youth Development Rate (YDR) covers those aged 18-20 (prior to October 2010 the YDR covered those aged 18-21); the 16-17 Year Old Rate (in operation since October 2004); and the Apprentice Rate (in operation since October 2010 and covering apprentices under age 19 or in the first year of their apprenticeship if over 19). Thus the project should also investigate the difference between employment and hours effects for 16-17 year olds, youths (18-20/21 year olds) and adults (aged 21/22 and over) if possible. The study should also consider those who were not initially employed (those unemployed or inactive). It should additionally focus on the key low-paid workers identified in the Commission’s Reports. These are women, part-time workers, ethnic minorities, disabled people, migrants and those with no qualifications. In addition, we are interested in any impact of the minimum wage on apprentices and older workers. Breakdowns by low-paying industry, low-paying occupation, geography and size of firm should be considered. LPC definitions of low-paying industries and occupations are detailed in Appendix 6 of the 2013 Report. Previous definitions are set out in Appendix 4 of the 2010 Report.

**Research Methods and Data Sources**

15. Potential contractors should specify the techniques, econometric or otherwise, that they intend to employ. Tenders should also state which data are to be used, and give some indication of their strengths and limitations and in particular whether the available data will restrict the analysis in any way. Appropriate data sources for this type of analysis might be the Labour Force Survey, the Annual Survey of Hours and Earnings and the British Household Panel Survey. The LPC is, however, open to the use of new data sources or methodologies.

16. The research should use up to date, appropriate, econometric techniques, in line with recent studies. It is essential that the methodology and analysis stands up to external scrutiny by professional academics, economists, statisticians and other analysts. The tender should outline the time period of the data to be analysed.

**Proposed Timetable**

17. The timetable for the project is as follows:

Deadline for submission of tenders: 31 January 2014

Selection of contractor: mid-February 2014

Presentation of research scope and

methodology at technical workshop: 15 April 2014

Presentation of findings at the LPC

annual research symposium: 12 September 2014

Interim reports: Date to be agreed on an individual contract basis

Presentation of findings at

non-technical workshop: 16 October 2014

Agreed final report: 31 October 2014

Publication: March/April 2015

18. Potential contractors should provide a provisional timetable to meet the above requirements and take account of the following stages of project design and reporting:

* Finalising the contract. Initial meeting with LPC Secretariat to finalise timetable, scope and working arrangements.
* Presentation of research scope and methodology.
* Main analysis.
* Submission of interim report.
* Meeting to discuss interim findings.
* Presentation of findings at the research workshop.
* Short project summary and discussion of policy implications prior to the non-technical workshop.
* Presentation of findings at the non-technical research workshop.
* Submission of draft final report.

19. The contractor can expect comments on initial drafts of the report, and the timetable should allow for subsequent revisions. The contractor will also be expected to present their findings in a non-technical way to the Commissioners at one of their monthly meetings (16 October 2014). In addition, the contractor will be expected to participate in our annual research symposium, a whole day event on 12 September 2014, in which they will be invited to present provisional findings to an audience including academic experts, government analysts, policymakers and members of the LPC. The contractor will also be expected to attend a more technical scoping workshop on 15 April 2014.

**Outputs**

20. The initial primary audience for this work will be the LPC. The main output of the study will be a report, detailing the aims and objectives of the research, the methodology adopted and the main findings. The report should include a brief non-technical Executive Summary. Ten bound copies of the final report and an electronic copy (preferably Word and pdf format) for the LPC website will be required. The LPC will make the findings publicly available and a synopsis of the report will be included in the 2015 Report of the LPC.

**Estimate of Costs**

21. Tenders should give an indication of the costs of different elements of the research project, and the accruals timetable. It is envisaged that payment will be made by the LPC in tranches, on completion of key stages of the project. Please state clearly whether these costs are exclusive or inclusive of VAT, and whether your organisation charges VAT.

**Tender Evaluation**

22. The following criteria will be used in assessing the tenders:

* Understanding of the requirements;
* Proposed methodology and data sources;
* Project management arrangements and quality control procedures, including ability to achieve the project timescales;
* Relevant previous experience of those assigned to the project;
* Value for money; and
* Overall cost.

23. In light of public sector spending constraints, particular emphasis will be placed on value for money and overall cost this year.

**INVITATION TO TENDER Reference number: 15/4**

**AN EXAMINATION OF THE IMPACT OF THE NMW ON EARNINGS, THE BITE AND WAGE DIFFERENTIALS**

# Project Summary

1. The Low Pay Commission (LPC) invites tenders for an examination of the impact of the minimum wage on earnings, the bite (its value relative to some point on the earnings distribution, commonly the median, mean or lowest decile) and wage differentials. This investigation should also examine whether these vary according to industry, geographical location, size of firm, and sector (private and public). We are also keen to gauge the extent to which the NMW has become established as the ‘going rate’. In addition, this project would ideally provide an analysis of whether wages and differentials reflect skills and productivity differences by sector.

# Background

1. The minimum wage has been in place for more than fourteen years, and over that time the LPC has monitored its impact on wages and employment in the aggregate economy and in low-paying sectors in particular. The LPC’s 2013 Report contains our most recent assessment of the impact of the minimum wage. The report provides analysis of the impact of the minimum wage on earnings and earnings differentials, on employment, and on the economic performance of firms. Overall it found that the minimum wage had significantly affected earnings in the lower part of the hourly earnings distribution; and that the NMW was affecting more firms and covering more workers.
2. We showed that there were clear spikes in the earnings distributions at the minimum wage and that the numbers paid at the adult rate of the minimum wage had increased from around 723,000 (3.3 per cent) when it was introduced in April 1999 to over 1 million (4.2 per cent) in April 2012. The numbers covered in the low-paying sectors and in small and medium-sized firms had also been increasing. We also showed that over 5 per cent of all adult workers were covered by the then forthcoming rate (in October 2012). In addition, our analysis showed that the bite of the NMW had increased from 45.7 per cent at the median (and 36.6 per cent at the mean) on introduction in 1999 to 52.8 per cent at the median (and 41.1 per cent of the mean) in April 2012. The bite had also increased among small firms and in the low-paying sectors as a whole. Evidence was also presented that showed that differentials were particularly tight in some industries
3. We have previously commissioned research that looked at the impact of the minimum wage on pay settlements, earnings and differentials; and how firms have attempted to manage increases in the minimum wage within their pay structures. Incomes Data Services (IDS, 2011c) showed that in the period to 2010 the median of pay settlements since the introduction of the minimum wage had followed similar trends in the low-paying sectors compared with the economy as a whole, albeit slightly weaker. Indeed, the only notable difference appeared to be the use of pay freezes since the onset of the recent recession. Pay freezes have been far more common in the whole economy than in the low-paying sectors, although this may result from the minimum wage continuing to increase throughout this period, thus allowing little opportunity for low-paying sector employers to freeze pay at the bottom of the distribution.

1. There is clear evidence that the minimum wage has affected the timing of pay reviews in the low-paying sectors. IDS (2011a and 2011c) showed that there had been a notable change among low-paying sector employers with October becoming more common as a settlement date. In 1999, fewer than 5 per cent of pay settlements in both the whole economy and the low-paying sectors were in October. However, by 2010, that proportion had increased to nearly 20 per cent of pay reviews in the low-paying sectors, while in the whole economy it had risen to just 6 per cent. In addition, it also presented evidence that other employers had introduced a two-stage process whereby the majority of the workforce continued to have its normal review date but the lowest paid received a supplementary award in October if necessary to comply with the NMW. This factor had lessened in 2012 as more companies had moved to an annual pay review in September or October.
2. The LPC has commissioned several studies to investigate how firms have attempted to cope with the minimum wage. IDS (2011a) summarised much of their previous work when analysing pay-setting since 1994. It found that many companies had expected a new government to be elected in 1997 and had prepared to some extent for the introduction of the minimum wage beforehand. Its introduction thus had little impact. However, the subsequent large upratings between October 2001 and October 2006 had led to further adjustments. Pay differentials had narrowed, as those paid above the minimum wage received smaller pay increases than those on the minimum wage. Further, pay structures were changed with the number of hierarchies or geographic pay zones reduced. For example, in the retail sector the three separate grades for trolley-collecting, shelf-stacking and cashier were commonly merged over time into one grade. Although prompted by NMW increases, many firms came to see this development as beneficial as it led to more flexible and multi-skilled staff deployed across these roles. In addition, firms also looked at ways to reduce labour costs by reducing pay premia for overtime and unsocial hours; and by restricting non-wage benefits such as subsidised meals and transport, annual leave, pensions, and staff discounts. Grimshaw and Caroll (2002); Cronin and Thewlis (2004); Denvir and Loukas (2006); and various LPC surveys of employers and stakeholder evidence found similar effects on the remuneration package and pay structures.
3. IDS (2011a), in common with some of the recent econometric studies (such as Dickens, Riley and Wilkinson (2012)), also found that there had been some slight restoration of differentials between 2008-2010, when minimum wage increases were much smaller than in the years of the large upratings.
4. Using data up to 2007, Stewart (2009) investigated the impact of the minimum wage on the wages of those paid just above it. He noted that his findings were sensitive to the methodology used and the definition of counterfactual earnings (what happened to earnings in the absence of a minimum wage (or its uprating)) but concluded that his results suggested that spill-over effects were generally small and limited to the 5th percentile of the hourly earnings distribution. Butcher, Dickens and Manning (2012 and 2013) found that the NMW did affect wage inequality. They also found modest direct spill-over effects but were also able to show some more significant indirect spill-over effects, reaching up to 40 per cent above the NMW, corresponding to the 25th percentile. These spill-over effects were larger for women than men and in areas where the bite of the minimum wage was greatest. Other research has generally found modest spill-over effects. In spite of concerns raised at the introduction of the minimum wage, none of these studies has suggested that increases in the minimum wage have led to significant upward pressure on earnings growth in the whole economy.
5. For our 2011 and 2012 Reports, we commissioned Dickerson and McIntosh (2011 and 2012) to investigate the relationship between productivity and earnings for workers in the early years of their working life. This project might make use of the methodologies and data sources used to extend their analysis to industry, geographical location, size of firm, and sector (private and public).

10. As noted, the research should cover breakdowns by low-paying industry, low-paying occupation, geography and size of firm should also be considered. LPC definitions of low-paying industries and occupations are detailed in Appendix 6 of the 2013 Report. Previous definitions are set out in Appendix 4 of the 2010 Report. The LPC definitions of firm size are: small firms (1-49 employees); medium-sized firms (50-249 employees); and large firms (250 or more). In addition, the LPC often disaggregates small firms into micro firms (1-9 employees) and other small firms (10-49 employees). Please note if the data require different definitions to be used.

11. The Commission would welcome a thorough investigation into the impact of the minimum wage on earnings, the bite and wage differentials, including the extent to which these vary according to industry, geographical location, size of firm, and sector (private and public). It would be very helpful if the project also assessed whether wages and differentials reflected skills and productivity differences.

# Aims and Objectives

12. The aim of the project is to investigate the impact of the National Minimum Wage on earnings, the bite and wage differentials, including whether these vary according to industry, geographical location, size of firm, and sector (private and public). We are keen to gauge the extent to which the NMW has become established as the ‘going rate’. In addition, this project would ideally provide an analysis of whether wages and differentials reflect skills and productivity differences by sector, geography and size of firm.

# Research Methods and Data Sources

13. Potential contractors should specify the techniques, econometric or otherwise, that they intend to employ. Tenders should also state which data are to be used, and give some indication of their strengths and limitations and in particular whether the available data will restrict the analysis in any way. Appropriate data sources for this type of analysis might be the Annual Survey of Hours and Earnings and the Labour Force Survey, as well as the Annual Business Survey. The LPC is, however, open to the use of new data sources or methodologies.

14. The research should use up to date, appropriate, econometric techniques, in line with recent studies. It is essential that the methodology and analysis stands up to external scrutiny by professional academics, economists, statisticians and other analysts. The tender should outline the time period of the data to be analysed.

**See Tender specification 15/1 for template for Proposed Timetable, Outputs, Estimate of Costs and Tender Evaluation.INVITATION TO TENDER Reference number: 15/5**

# ANALYSING the impact of the NATIONAL MINIMUM WAGE on WEEKLY take-home pay and household/family income, including the interaction of the NMW with the tax and benefits system

# Project Summary

1. The Low Pay Commission (LPC) invites tenders for a study to analyse the impact of the National Minimum Wage on weekly take-home pay and household/family income, including the interaction of the NMW with the tax and benefits system. We are particularly interested in gaining a better understanding of the impact of recent changes in taxes and benefits on the take-home pay of workers on the NMW.

# Background

2. The minimum wage has been in place for more than fourteen years, and over that time the LPC has monitored its impact on wages and employment in the aggregate economy and in low-paying sectors in particular. The LPC’s 2013 Report contains our most recent assessment of the impact of the minimum wage. The report provides analysis of the impact of the minimum wage on earnings and earnings differentials, on employment, and on the economic performance of firms. Overall it found that the minimum wage had significantly affected earnings in the lower part of the hourly earnings distribution; and that the NMW was affecting more firms and covering more workers. However, this impact on hourly earnings (and firms’ labour costs) had not led to a significant adverse impact on employment.

3. There has been limited research conducted about the impact of the minimum wage on weekly or take-home (net) earnings. Exceptions being the research conducted by IFS (2003), Bryan and Taylor (2004) and Brewer, May and Phillips (2009) which looked at the impact of the minimum wage on household income; and Brewer and De Agostini (2013) who looked at family income. In addition, Stewart and Swaffield (2004) used gross hourly pay to find some evidence that the increase in the minimum wage had led to reductions in hours implying that weekly pay had increased albeit by less, in percentage terms, than the increase in hourly pay.

4. Following the abolition of the ten pence tax band, we commissioned Brewer, May and Phillips (2009) to give us a better understanding of the interaction between the minimum wage and the tax system. Much of the confusion about the impact of this measure concerned the role of Tax Credits in compensating those that had lost out. The overall losers of the tax changes tended to be those who were not entitled to Tax Credits.

5. Since then, the Government has announced major changes to both the tax and benefit system. We commissioned Brewer and De Agostini (2013) to give us a better understanding of how changes in personal tax allowances and the lower earnings limits for National Insurance would affect the take-home pay of minimum wage workers. We also asked them to analyse the likely changes to take-home pay resulting from the introduction of the Universal Credit (UC).

6. They noted that there had been significant changes to personal taxation (large increases in personal allowances) and benefits (substantial cuts in benefits and a change in uprating rules) since the last General Election and that many more changes were in the pipeline (major reform of working age benefits and tax credits). Using the Family Resource Survey (FRS) and the Labour Force Survey, they ran microsimulations of the impact of the introduction of UC but in their assessments ignored both the transitional arrangements and the changes to Council Tax Benefit. They included all announcements made about the tax and benefits system up to and including the Chancellor’s Autumn Statement (HM Treasury, 2012b), made in December 2012. They showed that minimum wage workers who were the main earners tended to be towards the bottom of family income distribution (with the NMW accounting for typically 70 per cent of net income) but that secondary earners (and those with second jobs) tended to be higher up the income distribution (for whom the NMW typically accounted for around 30 per cent of net family income).

7. They estimated that UC will lead to small gains in income on average for low-income families and small losses for middle-income working families. These averages concealed a large number of families that will lose, offset by an even larger number of gainers. Families for whom the NMW is the main source of earnings will gain more than those whose NMW jobs are secondary sources of income. In general, they found that UC will reduce the number facing very high Marginal Effective Tax Rates (METRs) (80 per cent or more) but will increase the number facing high METRs (60-80 per cent). These changes broadly offset each other. Their results suggested little change, on average, in the relationship between gross income and METRs. Although UC will tend to increase the financial incentives to work for those not in work, on average, it will reduce the financial pay-off from working for secondary earners in a NMW job. This was most evident for families with the main earner also paid the NMW and those with higher wages.

8. They also estimated that across much of the income distribution, an increase in the NMW of 10 per cent led to an increase in net family income of around 3 per cent. They noted that this was around 4 per cent for families where the NMW was the main source of income and 2 per cent for those where the NMW was the secondary source of earnings.

9. In light of further changes to the tax and benefit system, the Commission would welcome another investigation into the impact of the minimum wage on weekly take-home pay and household/family income taking account of the interaction of the minimum wage with the tax and benefits system.

# Aims and Objectives

10. The aim of the project is to assess the impact of the National Minimum Wage on weekly take-home pay and household/family income, including the interaction of the NMW with the tax and benefits system, particularly in light of recent increases to the personal tax allowances and the introduction of the Universal Credit. It is envisaged that this study would build on the recent work conducted for the Low Pay Commission by Brewer and De Agostini (2013), which in turn built on earlier work by Brewer, May and Phillips (2009).

11. The study might also consider the potential impact on different groups. It could also look at the composition of take home pay, for example, whether it is likely to become more reliant on in-work benefits than wages, as workers reduce hours slightly due to changes in taper, or, conversely, whether workers increase their hours and thus the 'wage' component of their net income. Further, the research might consider how the potential impact of Universal Credit on worklessness changes employment decisions. For example, there may be more low-paid workers if there is an increase in the take-up of mini-jobs. In which case, the minimum wage may become an even more powerful lever in raising the living standards of those towards the bottom of the income distribution. Further, it might also consider the importance of the NMW in increasing incomes as work incentives are likely to improve if taxes and benefits are withdrawn more slowly.

# Research Methods and Data Sources

13. Potential contractors should specify the techniques, econometric or otherwise, that they intend to employ. Tenders should also state which data are to be used, and give some indication of their strengths and limitations and in particular whether the available data will restrict the analysis in any way. Appropriate data sources for this type of analysis might be the Family Resources Survey, the Labour Force Survey and the British Household Panel Survey/Understanding Society. The LPC is, however, open to the use of new data sources or methodologies.

14. The research should use up to date, appropriate, econometric techniques, in line with recent studies. It is essential that the methodology and analysis stands up to external scrutiny by professional academics, economists, statisticians and other analysts. The tender should outline the time period of the data to be analysed.

**See Tender specification 15/1 for template for Proposed Timetable, Outputs, Estimate of Costs and Tender Evaluation.**APPLICATION FORM

(Please feel free to expand your answers, using separate sheets if necessary)

|  |
| --- |
| Research Proposal |
| Date of Application: |
| Name of Applicant  Surname Forename(s) Title |
| Current Post Held: |
| Contact Address:  Email Address:  Telephone Number: |
| Organisation name (for contract purposes): |
| Registered Address of Organisation (for contract purposes): |
| Title of Research Proposal and Reference Number: |
| Summary – please give a brief outline of your general approach to this project and identify what would be your key priorities. |
| Research methods and sampling – please address the issues raised under this heading in the invitation to tender. |
| Timetable – please provide a provisional timetable to meet the requirements of the broad outline in the invitation to tender. Please also cover any issues raised in the invitation to tender. |
| Schedule of Costs – please include: the amount of time included for each team member and the rate at which services are charged; other costs; and if the project is in stages, a breakdown for each stage. VAT, where applicable, should always be shown separately. |

**CURRICULUM VITAE**

(Please complete for each team member and feel free to expand your answers, using separate sheets if necessary.)

|  |
| --- |
| 1. Surname Forename(s) Title |
| 2. Higher Educational Qualifications (subject, class, university and date) |
| 3. Posts held (with dates) |
| 1. Recent publications (title and reference); also papers accepted for publication (references should indicate first and last pages). |