

**National
Minimum
Wage**



Low Pay Commission

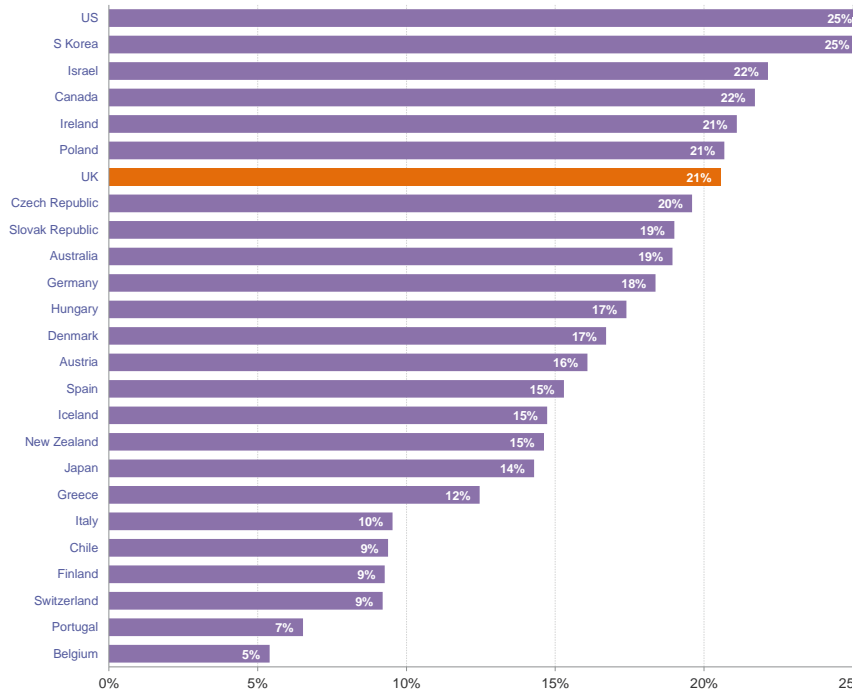
Low pay, productivity and the National Living Wage

David Norgrove
Chair, LPC

Resolution Foundation, 15 September 2015

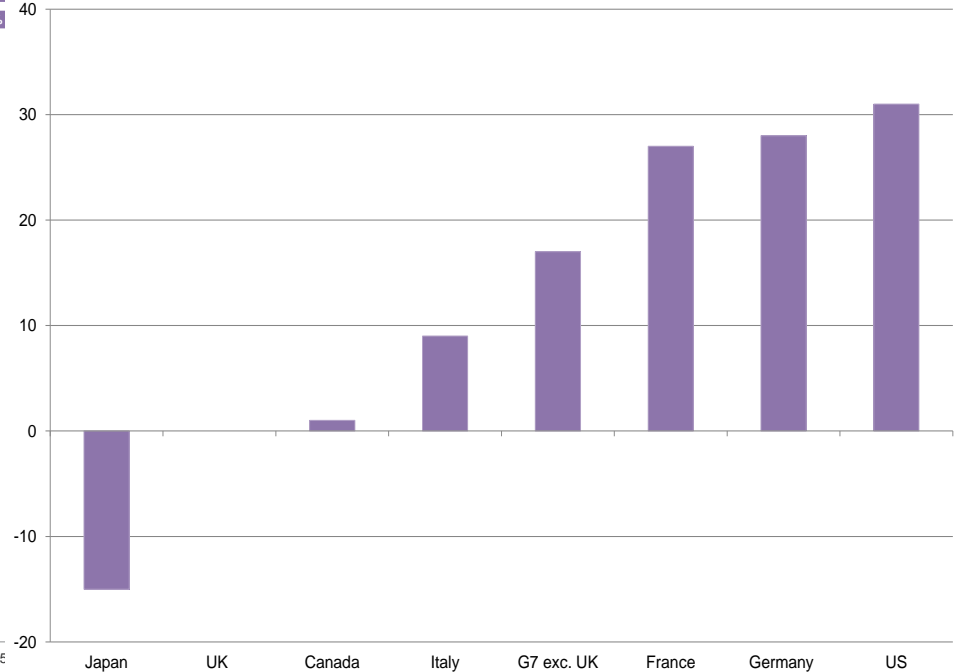
Long-standing problem of low pay and productivity

Proportion earning less than two-thirds of median full-time pay



Source: OECD: Proportion earning less than two-thirds of median full-time earnings, 2014.

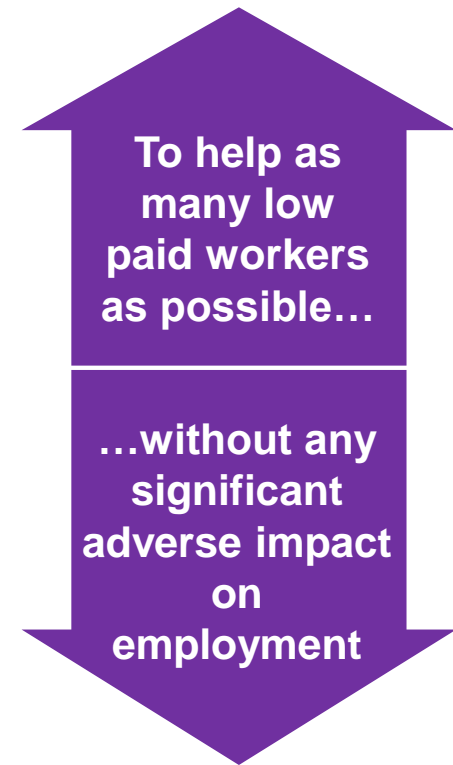
Output per Hour Worked, G7 Countries Relative to UK (Percentage Point Difference)



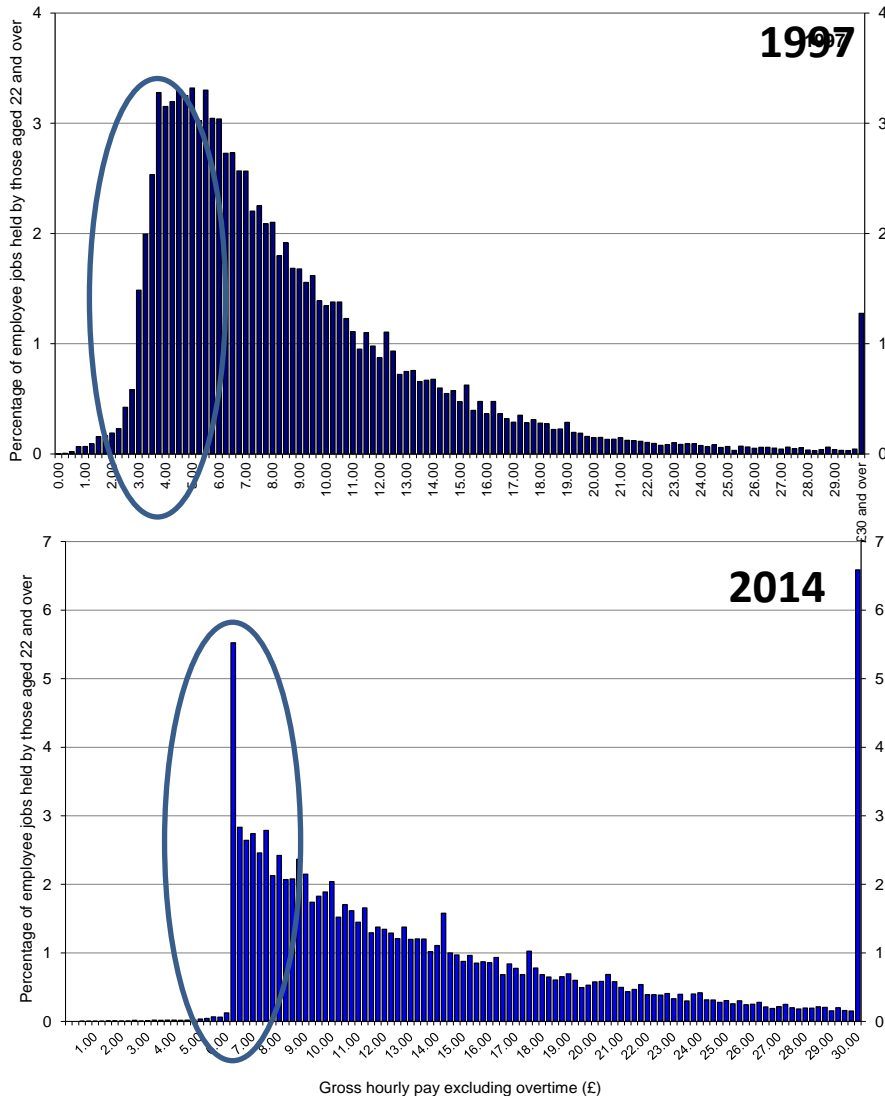
Source: ONS: International Comparisons of Productivity, 2013 final estimates.

The National Minimum Wage (NMW) was intended to raise pay and tackle exploitation

- No formal aim in the NMW Act but:
 - ✓ intended both to raise pay and to prevent exploitation.
 - ✓ Take the NMW out of politics and build consensus
- The level is determined by affordability, not need.



It is generally thought to have succeeded



1. Ended extreme low pay.
2. Not damaged jobs.
3. Strong record during recession, and in being ambitious.

Source: LPC estimates based on ASHE excluding supplementary information, 1997 and ASHE 2011 methodology, gross hourly earnings excluding overtime and special premia, low-pay weights, UK, 2014.

Business has adapted well

Nine ways businesses can respond to a higher minimum wage

- Fewer jobs: make redundancies or forego hiring
- Fewer hours, less secure contracts
- Squeeze benefits
- Squeeze differentials (and career ladders)
- Increase prices
- Reduce profit
- Substitute younger staff on the age-related NMW rates
- Raise productivity by training, investment or reorganisation
- Non-compliance

- Evidence shows modest negative responses by business, outweighed by benefits
- Some evidence NMW has spurred increases in productivity.

Future structure

From April 2016	
National Living Wage (25+)	£7.20 – 56% 'bite' (2020 target of 60% bite - £9)
Adult rate (21-24s)	£6.70
18-20 Year Old Rate	£5.30
16-17 Year Old Rate	£3.87
Apprentice Rate	£3.30

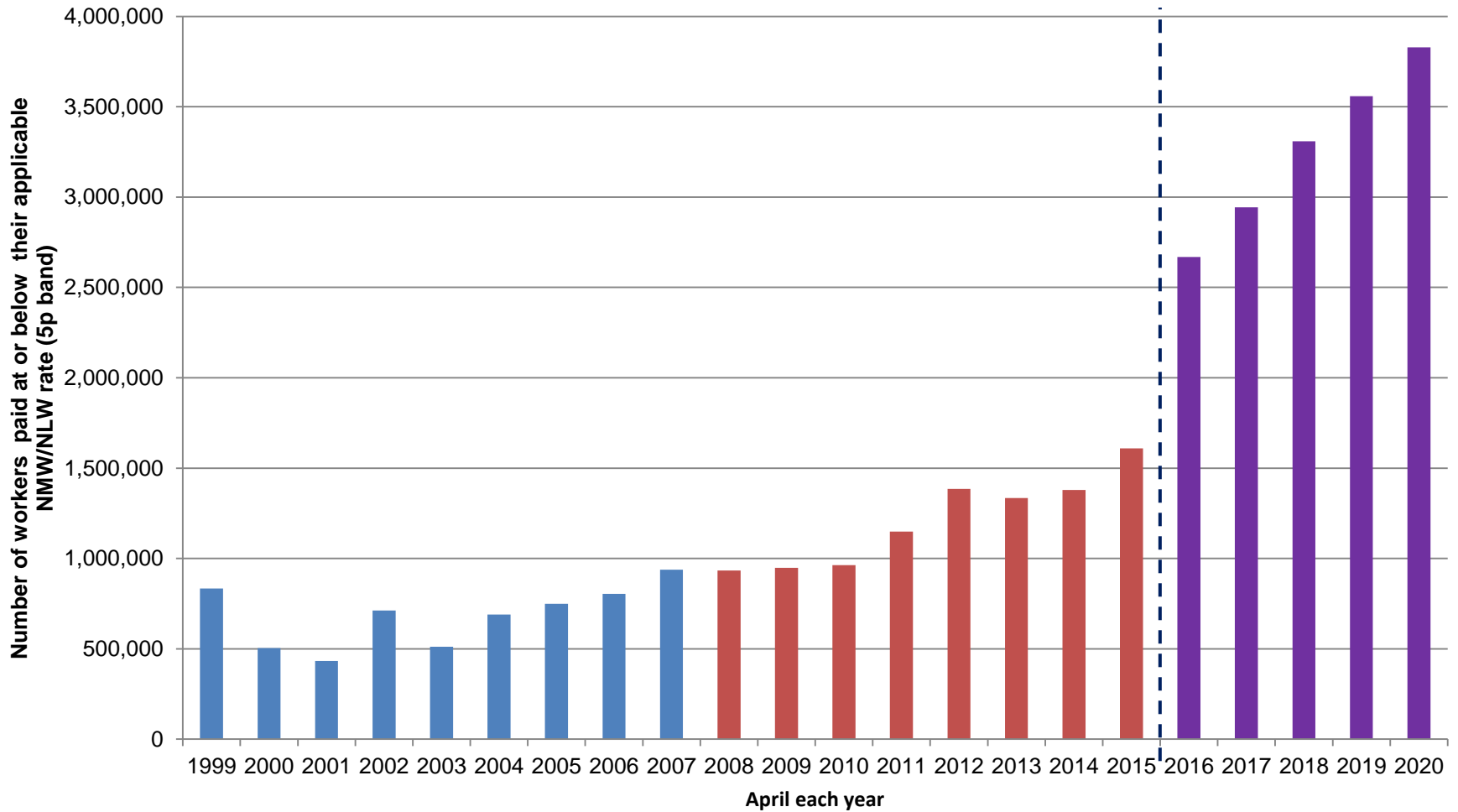
- A bite (not cash) target, and tolerance of employment risk
- 60,000 job losses vs 1.1 million created by 2020 (OBR).
- In effect a formula, calculated by LPC, and 'subject to sustained economic growth'.

So what will it mean?

Implications: higher pay, faster increases in bite, and coverage

- A major boost to incomes: average NMW worker (26.2 hours per week) gains around £850 by 2020 (2014 prices);
- A major change to the economy: by 2020, around 3.8m jobs are likely to be paid at one of the minimum wage rates, including 1 in 5 employee jobs in the private sector for 25+s;
- An unprecedented pace: a 60% bite for 25+s is an increase of more than 8pp from 2014 (further in six years than the previous thirteen).

NMW coverage



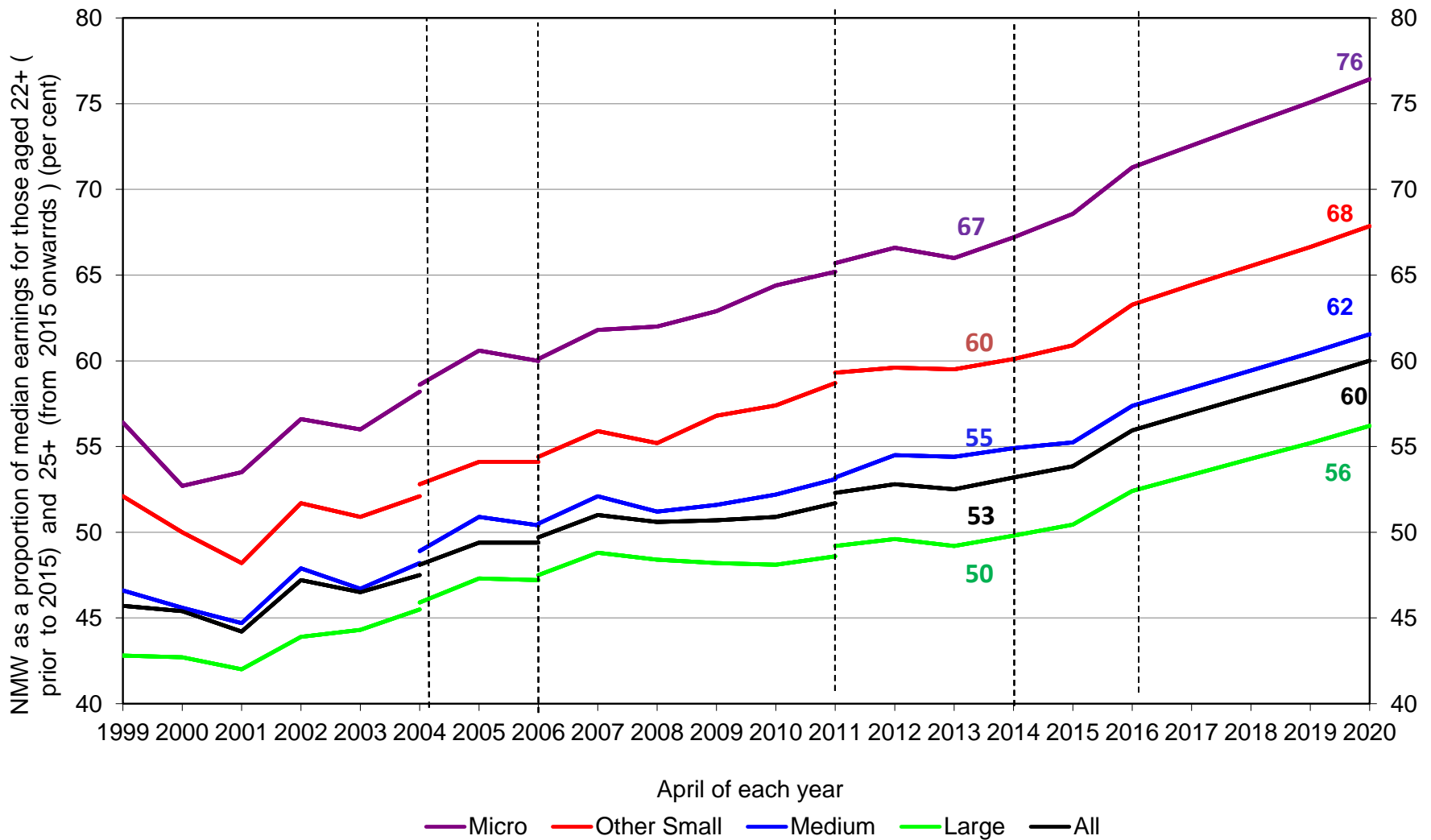
Source: LPC estimates based on ASHE excluding supplementary information, 1999-2003; ASHE including supplementary information, 2004-2006; ASHE 2007 methodology, 2007-2010 and ASHE 2011 methodology, 2011-2014. LPC estimates for 2015-2020 using OBR July 2015 wage forecasts based on ASHE 2014. Please note there are methodological discontinuities in 2004, 2006 and 2011 but they do not materially affect the picture shown

Sectors

2020	Bite (25+)	Share (all age) paid at/below applicable NMW
Cleaning	100	55
Hospitality	100	44
Retail	100	39
Childcare	98	40
Hairdressing	98	42
Food Processing	98	41
Social Care	92	32
Storage	88	28
Textiles	87	34
Leisure	86	24
Agriculture	86	26
Office Work	85	22
Non-food Processing	83	24
Transport	82	27
Non low-paying sectors	50	5
Total	60	14

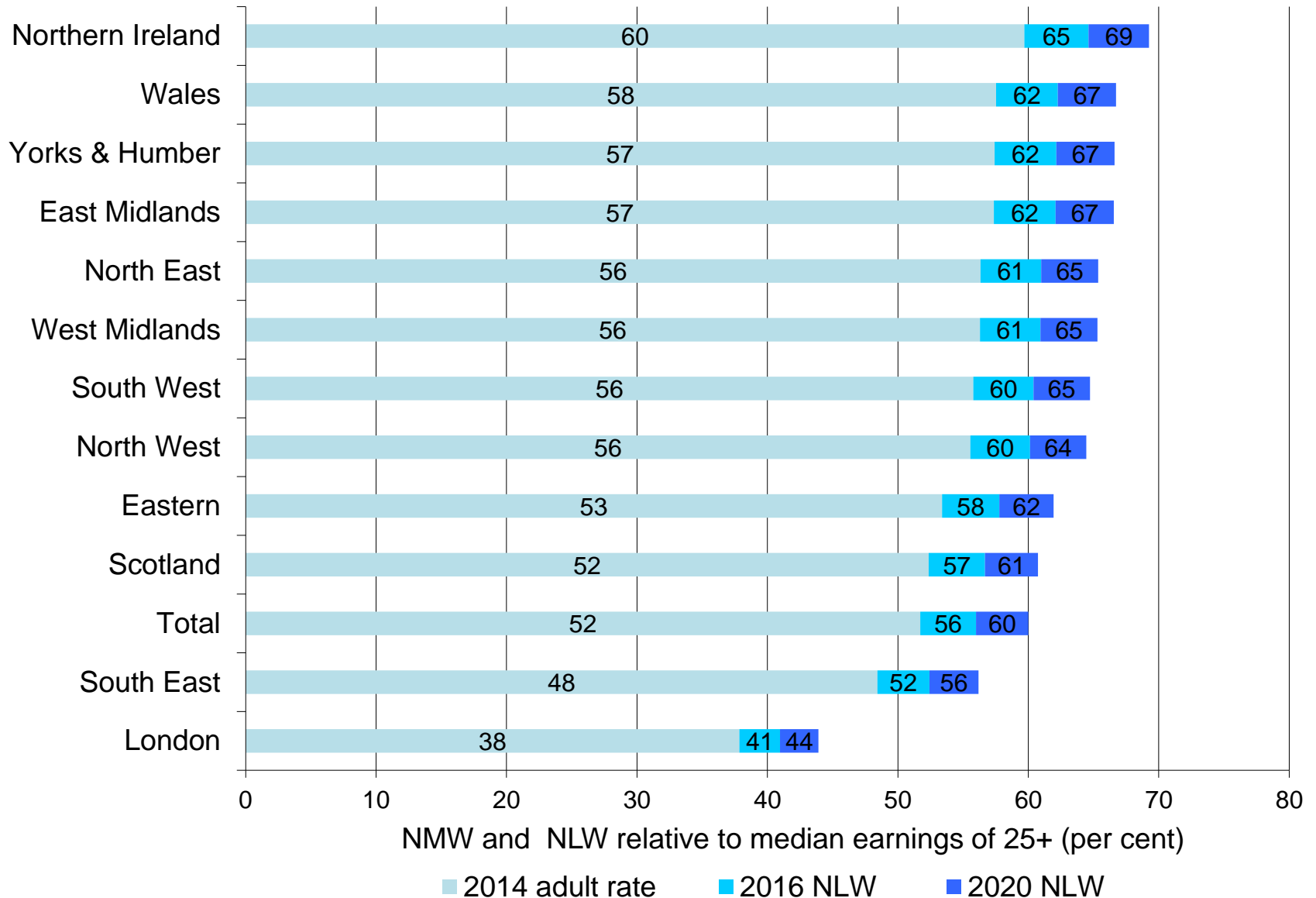
- Many sectors where large proportions on the NLW: risks to progression?
- Most pressure in sectors with high labour costs as a share of turnover

Firm size

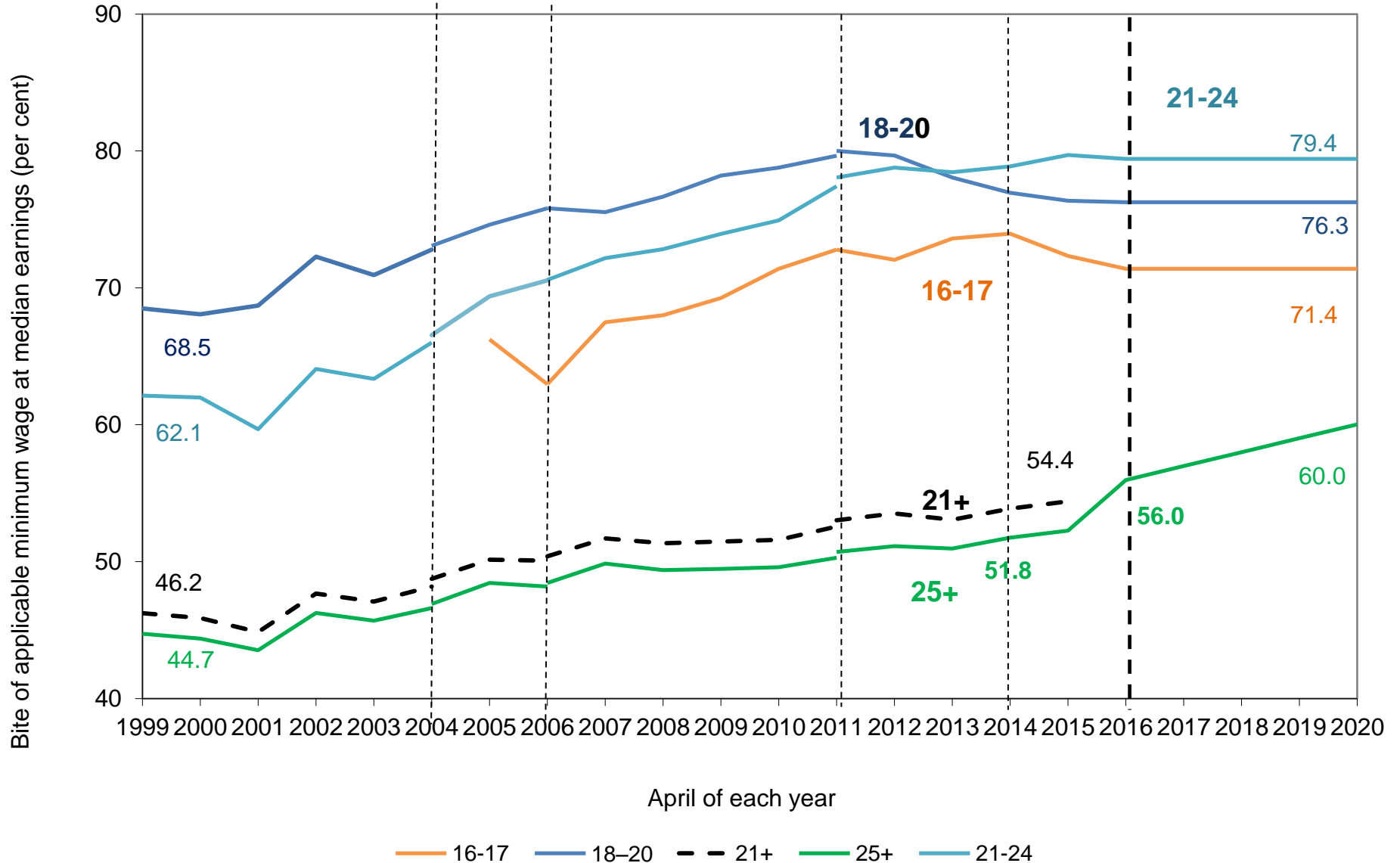


Source: LPC estimates based on ASHE excluding supplementary information, 1999-2003; ASHE including supplementary information, 2004-2006; ASHE 2007 methodology, 2007-2010 and ASHE 2011 methodology, 2011-2014. LPC estimates for 2015-2020 using OBR July 2015 wage forecasts based on ASHE 2014. Please note the data have been adjusted to take account of methodological changes in 2004, 2006 and 2011

Geography



Age



Source: LPC estimates based on ASHE excluding supplementary information, 1999-2003; ASHE including supplementary information, 2004-2006; ASHE 2007 methodology, 2007-2010 and ASHE 2011 methodology, 2011-2014. Please note the data are not strictly comparable before and after 2004, 2006 and 2011. Assumptions for 2016-2020: NLW increases on a straight path from 2016-2020. Other rates rise in line with OBR wage forecasts.

LPC role: to advise on the rate

Four main sorts of evidence:

1. Analysis of pay, labour market, competitiveness
2. Evidence from stakeholders and experts;
3. Visits programme across UK;
4. Academic research on the impact of past NMW increases.

1. To calculate rate of NLW & advise on path “subject to sustained economic growth”
2. To recommend youth, adult and apprentice NMW rates

Good reasons for optimism

Signs of strengthening nominal wages at last

Low inflation means real wages are also growing

Generally strong labour market

Strong growth in low paying jobs forecast by UKCES to continue to 2020

Dubious reasons

“People said the NMW would destroy jobs in 1999, but it didn’t”

...but it was introduced at a low level and raised progressively. There is little evidence about increases of this scale, and modelled impacts are very uncertain.

“There were big increases in the 00s”

...but labour productivity rose by around 2 per cent a year, there was average earnings growth of 4-4.5 per cent 2000-mid 2008, and the increases were smaller in bite terms.

Responses will vary

Sectors with different needs

Social care
and
childcare

- Higher productivity may reduce quality: not desirable
- NLW may flatten wage structure: new models harder?
- Pressures on funding, both public and private

Retail and
hospitality

- Acceleration of self service and automation
- Polarisation of service offer

Routes to higher productivity (1)

- Expectation of sustained economic growth
 - Demand for labour
 - Investment in people and things



Routes to higher productivity (2)

- Government support, including apprenticeships
- Management incentives?
- Sector specific issues
- Avoid talking shops (NEDC and little Neddies)

Overall:

- Immense inertia – no easy answers
- Reasons for optimism but also caution