National Minimum Wage

Low Pay Commission

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Criteria for increasing the National Living Wage target

June 2026

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Introduction

1 The Government's 2025 remit (Department for Business and Trade, 2025a) asked the Low Pay Commission to "gather evidence and publish [our] findings on what criteria would need to be met in order for the baseline target of the National Living Wage (NLW) rate to increase beyond the current two-thirds of UK median earnings level within this Parliament." This paper sets out our response to this request.

2 The Government published our 2025 remit in August 2025, after most of our consultation activity had taken place. Nevertheless, the evidence we gathered and discussions we held with stakeholders in 2025 and preceding years closely informed our views in this paper. We are grateful to all who have contributed to our evidence gathering in recent years, and who have helped shape our views on the future of the minimum wage.

3 Our latest remit was published on 16 March 2026, therefore this paper does not set out the framework that will be used when making rate recommendations to take effect from April 2027. The aim of this report is instead to contribute to longer term policy thinking on what criteria would need to be met in order to go above a two-thirds bite.

4 This report is structured as follows:

- Chapter 1 sets out the aims of the minimum wage, how these have changed since its inception, and what the policy has achieved.
- Chapter 2 compares the two most credible models for minimum wage remits. These are earnings-based targets such as those for the National Living Wage (NLW), and more qualitative remits like the Low Pay Commission had before the NLW.
- Chapter 3 sets out stakeholder views on NLW targets.
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- Chapter 8 draws together conclusions from the preceding chapters.
- The appendices explain the own wage elasticity (a key way of assessing a minimum wage change's effect on employment), and the method for estimating the potential impact of further increases in the minimum wage on the share of jobs or workers affected. The third appendix includes the references.

Summary

1 The Government's 2025 remit (Department for Business and Trade, 2025a) asked the Low Pay Commission to "gather evidence and publish [our] findings on what criteria would need to be met in order for the baseline target of the National Living Wage (NLW) rate to increase beyond the current two-thirds of UK median earnings level within this Parliament." This paper sets out our response to this request.

2 The decision on whether to have a target, and what level it should be is a political one. Our purpose here is to provide advice that helps the Government make this decision. On the general principle of targets our view remains that if the Government wants further ambition and reductions in hourly pay inequality, then a further target for the NLW would be necessary. If the aim is to instead protect the progress made so far and be more responsive to economic conditions, then a principle-based or qualitative remit is best suited.

3 Our view is that the most credible models for the minimum wage in the UK are wage 'bite' target approaches (such as under the NLW) and qualitative approaches (which were in place before the NLW). Both have pros and cons but have been successfully implemented in the past. Worker representatives note that the NLW targets have likely lifted the wage floor higher than would otherwise have been the case. This has raised pay and living standards for low-paid workers without strong evidence of substantial job loss or other negative impact. However, employers view targets as arbitrary and unresponsive to economic and business conditions. There are also technical challenges in predicting the rate needed to hit a given target in the future.

4 Qualitative approaches leave more room for judgement and negotiation, a key strength of the Low Pay Commission. They also avoid the technical challenges of predicting the wage growth necessary to hit a future target and inflexibility to economic circumstances. However, without a target, calculating a forward path to plan against would not be possible, reducing predictability for employers and the Government. Under a qualitative remit it can be difficult for the Low Pay Commission, as an evidence-based body, to argue for more ambitious rate increases without evidence of their costs and benefits. This means that if Government wants more ambition then it needs to provide the impetus, via a target or ambitious qualitative remit, and to accept some risk.

5 Target-based and qualitative approaches could also be combined. For example, the remit could say that two-thirds is now the 'floor' but there is freedom to move away from this depending on economic conditions. This would give the LPC flexibility to respond to economic circumstances but protect the progress made by the NLW target so far in terms of inequality.

6 A further option is to have a new target, for example a certain proportion of median earnings — but without a target date or year. This would set a direction of travel, but maintain the flexibility to respond to economic circumstances. In Chapter 2 we lay out the pros and cons of targets and qualitative approaches, and discuss how they could be combined in more detail.

7 We believe there are several broad criteria that the Government should bear in mind when making the decision on whether to adopt a target and at what level. These are credibility with stakeholders, clarity of purpose, potential impacts of the minimum wage and supportive long and short-term economic and policy conditions. Each of these interrelate with one another.

Credibility and clarity on the policy aim

8 Minimum wage policy success is more likely when it has credibility with both workers and employers. Workers and their representatives want to be assured that any new target will be achieved and that they will benefit from this. Employers want to be assured that economic and business conditions will be taken into account when setting the target and the rates themselves. While each side may disagree with parts of the policy, they are more likely to accept it if they see it as credible, i.e. moving towards a clear, justifiable objective with mechanisms to take account of their concerns. In Chapter 1 we discuss what objectives the minimum wage has had since its inception and what it has achieved.

9 Both employer and worker representatives want to improve living standards for workers, and both worry about risks to jobs. However, they differ in the emphasis they place on these risks. Their views on what should happen next with regard to the NLW are set out in Chapter 3. Workers and their representatives back a further target because they believe it will make a material difference to living standards, with limited impacts on employment. But an understanding of the Government's precise aim and how other policies align with this goal would help workers and their representatives be supportive.

10 Employers, on the other hand, worry that the NLW is rising inexorably and unsustainably, potentially harming jobs, with no clear end point. Some have also told us that they believe the costs to them as employers are greater than the benefits to their workers. This leads them to question the point of further rises. So employers too need to understand the objective.

Impacts of the minimum wage to date

11 The decision on whether to have a further target should be informed by the impacts to date. This information can give an idea of the potential impacts of further increases and help the Government decide what trade-offs it is willing to accept or wishes to mitigate with other policies.

12 The NLW and NMW have been a success. So far, it has raised pay and living standards of low paid workers. For example, between 2016 and 2025 the real weekly pay of NLW workers increased by far more than for the median job (20 per cent and 4 per cent respectively). And it has done so without strong evidence of meaningful damage to employment. In the absence of negative impacts on employment or prices, which we discuss below, further increases in the bite would likely continue to increase real hourly and weekly pay for low-paid workers. More broadly, the wage floor prevents exploitation, rebalances market power back toward workers, levels the playing field for employers and lowers hourly wage inequality at the lower end of the wage distribution (if it rises faster than the median). A higher pay floor can also improve staff morale, lower staff absences and reduce staff turnover.

13 However, this does not mean that it has been easy for employers, that low-paid workers are no longer struggling or that there won't be trade-offs or negative impacts in the future. Employers tell us the NLW has reduced their profits and, smaller employers in particular worry that this lowers their scope to invest. While – as we show in our 2025 Report (LPC, 2026) – the impact on inflation is minimal, employer surveys increasingly tell us that raising output prices are their main response to NLW cost increases. And workers tell us that they continue to struggle to afford the basics of food, bills and housing.

14 The NLW targets have raised the wage floor relative to median pay, which squeezes the pay distribution between these two points. This means that relative pay differentials between minimum wage jobs and those just above them are reduced. Employers say that smaller differentials reduce the reward for seniority, responsibility, experience or skills, and worry this affects morale and progression into senior roles. Though, even if pay differentials are lower in percentage terms, they can remain constant or even grow in cash terms.

15 There are trade-offs for workers too. We hear that some employers expect their staff to work significantly harder to cover the higher costs. Some have lost paid breaks, pay premiums and other non-pay benefits. Lower differentials can harm workers' chances of career progression. There is also the risk that firms switch to a self-employment model to avoid the NLW, though there is little evidence of this happening so far.

16 To aid Government decision making we have modelled a large number of scenarios of potential future impacts of further rises on employment and prices in Chapter 7. These scenarios vary depending on the level and timing of the bite target, the eligible age group for the NLW and our assumptions about the employment impacts. For the latter we have drawn from the UK evidence so far and international studies, with the latter discussed in Chapter 6.

17 Looking across these scenarios, we estimate that – depending on its ambition – further increases toward a higher percentage target would result in similar outcomes to those seen so far, i.e. small impacts on prices and employment. But being certain about the future is difficult and the macro-level impacts can obscure sector-level variation. In some scenarios, the impacts are far larger.

18 Lowering the NLW eligibility age from 21 to 18 also lowers the NLW rate needed to reach any particular bite level. This in turn means lower employment risks for adults over 21. But it also means relatively more employment risk for 18-20 year olds as their wage floor will rise. For comparison, we have also modelled the impacts of the NLW eligibility age remaining at 21. In these scenarios the NLW is relatively higher, so the employment risk for 21 year olds is also higher, but for 18-20 year olds it is lower.

19 Added to these impacts there could be a host of other outcomes for workers and businesses that are much harder to measure and anticipate. This includes work intensification, loss of other perks and broader impacts on employer scope to invest or train. Though we also anticipate benefits to low-paid workers in the form of ongoing increases in real hourly and weekly pay.

Supportive long-term economic conditions

20 Given that NLW targets tend to be for the long term, often four or five years in the future, their success depends on long-term economic conditions over that period. The better the economy does in terms of growth, jobs, real wages, business conditions and productivity the more scope there is for further NLW targets. In Chapter 6 we look in detail at what economic conditions might support further rises.

21 However, the evidence does not suggest specific thresholds in these conditions (e.g. certain levels of GDP growth or employment rates) that need to be reached for success. And even if we could identify these thresholds, it would be difficult to predict whether they would be met several years into the future. For example, the Office for Budget Responsibility (OBR) currently expect employment to grow, in both levels and rates, by more than it did during the first NLW target period from 2015 to 2020 (OBR, 2015 and 2026). As the OBR's employment predictions then were a key part of the rationale for the first NLW target, its current predictions would also seem to support a further target. But a closer look at the data shows that employment grew by far more than the OBR expected between 2015 and 2020. And that this unexpectedly buoyant labour market likely aided the NLW's success. So it is possible that what's needed to guarantee minimal job loss is the very high employment rate growth seen from 2015 to 2020. This example shows how difficult it is to identify the conditions needed to support a successful minimum wage policy, and to predict what conditions will actually be. Other economic metrics like economic growth, productivity etc would tell a similar story.

22 Because it is not possible to be certain whether the economy can absorb a further target or the associated increases, what really matters is the Government's risk appetite for job losses or other negative impacts. In any case, the policy will need to be able to respond to economic circumstances year by year and this will be key to its credibility.

Supportive current economic conditions

23 While future conditions are hard to predict, current conditions are more measurable. And while long-term conditions should determine a target, stakeholders' views are likely to be rooted in current economic conditions.

24 The labour market has slowed over the last few years or so. Unemployment has risen and vacancies have fallen below pre-pandemic levels, particularly in retail and hospitality. Employers in low-paying industries have told us of their significant worries about rising costs, weak consumer demand and an uncertain outlook.

25 Setting a higher target now, when conditions are not strong, may lack credibility with employer stakeholders. Equally, worker representatives note that low-paid workers are still struggling with the cost of living. They point to above-target inflation and weak average real wage growth. A policy approach that does not take account of living standards will lack credibility with worker representatives. This reflects the difficulty of making decisions on the minimum wage. There are powerful arguments in both

directions so the decision is finely balanced. Indeed, the difficulty of making these decisions is one of the reasons for the Low Pay Commission's existence.

Supportive policy environment

26 The impact of any minimum wage increase is mediated by a range of other Government policy decisions in areas like tax rates and thresholds, particularly those pertinent to low-paid workers and lower-paying sectors, as well as international trade, competition policy and others.

27 There are a host of major policy changes underway, the outcomes of which are hard to predict. We don't know the final details of many of the changes envisaged by the Employment Rights Act or how its measures will affect the labour market and interact with the minimum wage. Employers worry that the additional rules and protections will have a negative effect on hiring. Worker representatives counter that the improved security will boost workers' confidence to move jobs, upskill and bolster demand.

28 Equally, we don't know how the Government's efforts to significantly reduce migration will change things, particularly in the low-paying sectors with many migrant workers currently. Other policy changes such as reform of the welfare system and the apprenticeship framework are also important factors to consider, as is the funding situation for low-paying publicly-funded sectors like social care and early years (childcare).

Conclusion

29 The decision on whether to have a further NLW target is a political choice. We think that targets and qualitative remits for the NLW are the only models that work in practice, but they both have different pros and cons. Targets are better if the Government has ambitious aims and wants a path to plan against. Qualitative remits are more responsive to economic conditions. Targets and qualitative approaches can be combined, for example two-thirds of median earnings could be treated as a floor or benchmark, or a further target could be set but without a fixed end date. Both of these would allow more flexibility to respond to economic circumstances than targets alone, but would give the Government scope to set the direction of travel it wants.

30 The difficulty in predicting both the economic and policy environment in several years' time makes it difficult to be confident about what should happen to the minimum wage in the future. Regardless of what decision the Government takes on the minimum wage's next step, the LPC's view is that the following principles should continue to apply (Low Pay Commission, 2024b).

- Responsiveness to economic conditions – When the economy is booming the lowest-paid should not be left behind. Likewise, when the economy is struggling we should be mindful of the risks. Recommendations on what to do in these circumstances should be based on evidence and the voice of workers and employers.
- Social partnership and independence – An agreed view between employer and worker representatives assures credibility for the Government's decisions and the minimum wage itself.

- Maintain the level playing field – Employers should face the same rules with as few exceptions as possible. This maintains the 'level playing field', a key principle for employer buy-in.
- Easily operated and enforced – Just having an NMW doesn't prevent exploitation or hardship. It needs to be enforced. Any minimum wage model needs to be simple enough for both workers and employers to understand their rights and responsibilities, and for the Government to enforce and communicate.
- Consistency – so that workers and employers alike know what to expect and can plan accordingly. The Government should set out the LPC's remit approach and only make changes with sufficient notice.

Chapter 1 – Aims of the minimum wage

Key points:

- The minimum wage has had many aims, which have shifted over time
    - National Minimum Wage (1999-2015): addressing exploitation, making work pay, reducing pay inequality and – alongside other measures – tackling in-work poverty
    - National Living Wage (2015-2020): "a higher wage, lower tax, lower welfare society";[1] improve productivity.
    - National Living Wage (2020-2024): "ending low pay"[2]
    - National Living Wage (2024 onwards): greater focus on living standards
- Some aims have been achieved: Exploitation through extreme low pay is down (the National Minimum Wage is generally complied with), as is relative hourly pay inequality. The hourly and weekly pay of workers on the National Living Wage have risen faster than average wages and prices, improving their living standards and helping to 'make work pay'. But less progress has been made on poverty or productivity.
- Government should decide what it wants to achieve with the next target and align other policies to this aim. National Minimum Wage policy aims are best achieved in concert with other policies that either reinforce its benefits (e.g. in-work financial support) or mitigate its costs (e.g. employer tax reductions, active labour market policies).

Introduction

31 The Government has asked for our advice on the criteria for increasing the National Living Wage (NLW) target this Parliament. A key part of this would be the Government taking a view on what it wants to achieve with a higher minimum wage. This is for two reasons. Firstly, the minimum wage is a simple tool, it protects and increases the gross hourly wage of the lowest paid. Any objectives beyond affecting gross hourly pay for the lowest-paid are likely best achieved in combination with other policies.

32 The second is for credibility. Stakeholders are more likely to back further increases if they know their purpose and end game. Workers and their representatives want to be assured that any new target will be achieved and that workers will benefit from this. Employers want to be assured that economic and business conditions will be taken into account when setting the target and the rates themselves. While each side may disagree with parts of the policy, they are more likely to accept it if they see it as credible, i.e. moving towards a clear, justifiable objective with mechanisms to take account of their concerns.

[1] Chancellor George Osborne's Budget speech announcing the NLW in July 2015 (HM Treasury, 2015a).

[2] Chancellor Philip Hammond's Budget speech October 2018 (HM Treasury, 2018).

33 Workers and their representatives back a further target because they believe it will make a material difference to living standards. But an understanding of the Government's precise aim and how other policies align with this goal would help workers and their representatives be supportive.

34 We often hear from employers that the costs to them are greater than the benefits to their workers. Despite incurring what they see as a major cost, they worry their workers don't fully benefit because of off-setting losses in tax or benefits. This makes them question the NLW's purpose and value.

35 In this chapter we briefly survey the history of the National Minimum Wage (NMW), including the NLW, what its purpose has been and what it has actually achieved.

The National Minimum Wage's purpose

36 From its introduction in 1999, the minimum wage aimed to tackle exploitation, 'make work pay', reduce pay inequality and, alongside other measures, address in-work poverty. Importantly, these aims were balanced against the risk to employment. The Low Pay Commission's First Report (LPC, 1998) stated:

> *"A National Minimum Wage must address the worst cases of exploitation. Some homeworkers we met provided vivid examples. We wanted to go further and to try to make a difference to a wider group of low-paid workers, and those out of work. There needs to be a real incentive to make work pay, without unnecessarily jeopardising job opportunities….*
>
> *"…In a society which now has considerable inequalities in pay, a National Minimum Wage should secure greater equity in the workplace and provide for a more inclusive society. While setting a higher National Minimum Wage could make greater inroads into pay inequality, we are conscious that we will not help low-paid workers by recommending a rate which is so high that their jobs are put at risk"*

37 Thanks to the minimum wage, exploitation through extreme low pay is now illegal. Employers largely comply with the minimum wage, but, where they don't, enforcement by HM Revenue and Customs (HMRC) has identified arrears of around £200 million for over 1.5 million workers since 1999.[3] Ending the legality of such exploitation has benefitted employers too. Many worried they would be undercut by unscrupulous competitors charging less by exploiting more. The minimum wage introduced a "level playing field" so all employers were competing on the grounds of fairness. This was critical for employer buy-in to the concept of the minimum wage.

38 Pay inequality had been on the rise for many years before the minimum wage was introduced. The LPC's First Report (1998) said: "Average earnings have increased much more rapidly than the earnings of lower-paid workers, and the earnings of the skilled have increased relative to those of the unskilled." It was the case then, as now, that certain groups of workers – women, ethnic minorities,

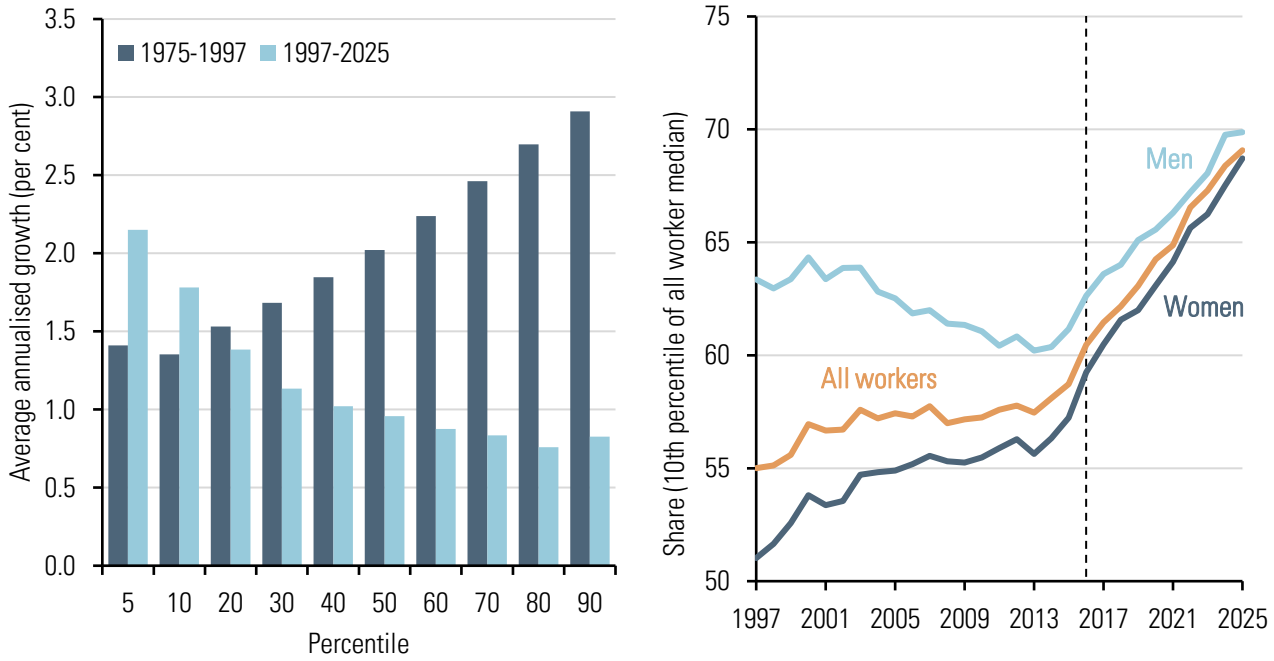
[3] Figures taken from most recent Government evidence on compliance (Department for Business and Trade, 2025b) and the National Audit Office (2016) report into compliance.

people with disabilities – were more likely to be low-paid and exploited. However, the minimum wage has gone some way to addressing these inequalities.

39 The left panel of Figure 1 compares hourly pay growth across the distribution over the years before and after the NMW was introduced. The pre-NMW period slopes upward from left to right, showing higher pay rises at the top than the bottom, as pay inequality rose. The NMW played a part in reversing this pattern; since its introduction, pay has grown fastest for those at the bottom.

40 The right panel of Figure 1 shows another common measure of inequality, the 50:10 ratio. This chart shows the level of pay at the tenth percentile for men and women, as a share of the median for all workers. Hourly pay for men at the tenth percentile was much higher than for women in 1998. But over the following years this gap narrowed substantially, particularly after the NLW's introduction in 2016.

Figure 1: Real annualised hourly pay growth by pay percentile (left panel) and 10th percentile hourly pay as share of all worker median, 21 and over (right panel)



Source: (LHS) LPC analysis of NES, unweighted, 1975-1997 and ASHE, standard weights, 1997-2025, UK, workers aged 21 and over in both periods and CPI indices. (RHS) LPC analysis of ASHE, standard weights, UK, 1997-2025, age 21 and over.
Notes: Administrative data sources show stronger pay growth in recent years at the top of the pay distribution, so these results may understate pay growth for top deciles. Figures are chain-linked to adjust for methodological changes to ASHE since 1997. For more information see Appendix 3 of the 2025 Report (LPC, 2026).

The NLW heralded a shift in the Government's ambition, risk tolerance and policy aim

41 The NLW's introduction in 2016 heralded higher increases tied to median hourly pay. The minimum wage as a percentage of the median is called the 'bite' and the NLW's first target aimed for a 60 per cent bite for those aged 25 and over by 2020.

42 Alongside the target, the Government also increased its risk appetite and acceptance of potential job loss. The Office for Budget Responsibility (OBR, 2015) expected the NLW to increase

unemployment by between 20,000 and 110,000 (with a central estimate of 60,000) by 2020. While the OBR described this as 'fractional',[4] it was nevertheless a greater implied tolerance for job loss than under earlier remits. Previously, the LPC's remit was "to have NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects" (Department for Business, Innovation and Skills, 2014).

43 The second target, set in the March 2020 Budget with a target date of 2024,[5] aimed for a bite of two-thirds of median earnings. The Organisation for Economic Cooperation and Development (OECD) use the latter figure as a benchmark of "low pay", hence the Government's aim to "end low pay" (HM Treasury, 2018) with this target.

44 The combination of these two targets from 2015 onwards led to more ambitious increases in the wage floor. In the pre-NLW period (1999 to 2015) the adult minimum wage rate increased from a bite of 45.6 per cent to 52.5 per cent. In a shorter period (2015 to 2025) the NLW increased the minimum wage far more. The NLW's ambition also meant higher real-terms rises in the wage floor. Since (and including) its introduction, the value of the NLW has increased by an average of 2.9 per cent in real terms (CPI) at each uprating, compared to just 1.9 per cent during the pre-NLW period (1999-2015).

45 By raising the minimum wage relative to median pay, relative hourly wage inequality fell further. Figure 1 (right panel) illustrates the gap between the lowest paid (10th percentile) female-held jobs and the median (for all jobs) narrowing more quickly after the NLW was introduced. The NLW also reversed the trend for jobs held by men, where inequality had previously been widening.

A recent focus on living standards

46 Since the change of Government in 2024, the remits set for the LPC have introduced a new focus on living standards. Each remit since then has asked us to take account of future changes in prices to ensure the NLW protects the living standards of those on the lowest wages. In each of our main rates reports since that change (LPC 2024 and LPC 2025), we show in detail how we have done this. We discuss the NLW's impacts on living standards in the next section of this report.

The NMW and NLW have raised living standards, but made less progress on poverty

47 Consistent increases in the minimum wage, particularly after the NLW's introduction in 2016, have made it one of the highest minimum wages in the world (relative to the median wage in each country). The wage floor has also risen far more than prices and the average wage. Over its lifetime it

[4] *"The OBR today say that the new National Living Wage will have, in their words, only a "fractional" effect on jobs."* (HM Treasury, 2015a).

[5] See Chapter 4 for more details.

has increased by nearly 80 per cent in real terms. By contrast, the real median hourly wage has only increased by just under a quarter, having been stagnant since the 2008 financial crisis until recently.

48 These increases in real hourly pay have translated into real weekly pay increases, which matter more for living standards. Between April 2016 and April 2025, gross weekly pay in NLW jobs done by those aged 25 and over increased by 20 per cent in real terms, slightly less than the NLW's rise of 23 per cent (this period excludes the large uprating made at the introduction of the NLW). By contrast, median weekly pay in other jobs has only risen 4 per cent in real terms. See Figure 14 in Chapter 7 for a chart of these long-term changes in real hourly and weekly pay.

49 Household incomes have risen faster for families with NLW workers, too. Between the 2016/17 and 2023/24 financial years, households with an NLW worker aged 25 and over saw their average net income (after taxes and benefits and adjusted for household size) increase by nearly 5 per cent in real terms, while working households with no NLW workers saw their real terms net income fall over the same period.

50 Nevertheless, there are limits to what the minimum wage can do on its own. Despite raising real weekly wages and household incomes, its impact on some measures of living standards and for some families can be muted. For example, minimum wage increases have little impact on headline poverty rates. This is primarily because most households in poverty have no NLW earners. Many households in poverty have no one working at all, while others have workers earning more than the NLW but who may be working few hours or have only one wage to support several people.

51 Moreover, we find NLW workers throughout the household income distribution, including in higher-income households. Many NLW workers live with a partner who earns more, or are young people living with their parents. Only around 40 per cent of NLW workers are the 'main earner' in their household. NLW main earner households are significantly more likely to experience poverty than other NLW (and other working) households, but most still have enough income to take them above the poverty line.

52 Where NLW households are in poverty, there may be other factors limiting the ability of NLW increases to lift them out. Most NLW jobs are part-time, limiting their scope to provide for a household. What's more, NLW households in poverty tend to be larger than those not in poverty and are more likely to include other workless adults, so any wage gain is spread thinner. Finally, some households receiving Universal Credit will have some (but not all) of the gains from a minimum wage increase offset by reduced benefits.

53 That is not to say that there is no gain for poor households with NLW workers; they are still better off following a minimum wage increase, regardless of whether it takes their income over a given threshold. However, while the minimum wage can support policies around living standards, it is not well-targeted to reduce poverty on its own.

54 In fact, the NLW's introduction never aimed to reduce poverty. Instead, the aim was to shift more of the burden of supporting the incomes of the low paid from the Government to employers. When announcing the NLW, the then-Chancellor said: "We want Britain to move from a low wage, high tax, high welfare economy, to a higher wage, lower tax, lower welfare society … It can't be right that

we go on asking taxpayers to subsidise, through the tax credit system, the businesses who pay the lowest wages." As such, it was introduced alongside changes to benefits entitlements designed to reduce the benefit bill.

55 This reflects the importance of considering policies in the round when assessing what the minimum wage can achieve. NLW increases have provided important income gains to millions of workers. Nevertheless, the NLW reaches a relatively small share of the population and is only one component of income for most families. If it is to play a broader role, then minimum wage policy works best as part of a broader strategy.

Minimum wage policies work best in concert with other policies

56 The minimum wage does not exist in a vacuum. If the Government has clear policy aims in mind it should think how the NMW and NLW, along with other policies, can contribute. For example, ensuring the objectives of minimum wages and in-work financial support are complementary. Similarly, if the Government is concerned about the possible negative effects of minimum wages, it can consider other policy changes to mitigate these.

57 The NMW was introduced in 1999 as part of a package of complementary policy measures to "tackle working poverty and help people move from welfare to work" (LPC, 1998). These included the Working Families' Tax Credit, introduced in the 1998 Budget to boost the incomes of low-income households, particularly those with childcare costs. Alongside this, the New Deal active labour market programme was designed to help people entering work and reform of employer National Insurance Contributions (NICs) lowered the cost of recruiting people into low-paying jobs (LPC, 1998).

58 When the NLW was introduced in 2016, other policy changes mitigated the costs to employers. Reductions were made to corporation tax and employer NICs for smaller businesses via an expanded employment allowance. But the intention to shift the burden of supporting the low-paid from Government to employers led to a number of measures that reduced household incomes. These included a four-year freeze to most working age benefits and tax credits, and a reduction in the amount individuals could earn before they were subject to withdrawal of their tax credits or universal credit (Elming et al, 2015).

59 Whatever it decides to do next with the minimum wage, the Government should take a broad view of how it complements and interacts with other policies. This includes high level economic policy such as tax thresholds, but also interactions with in-work benefits and other support including childcare, education and skills policies.

Chapter 2 – Targets or qualitative approaches?

Key points

- Our view is that the most credible models for the UK minimum wage are wage bite target approaches (such as under the National Living Wage) and qualitative approaches (which were in place before the National Living Wage). Both models have been successfully implemented by the Low Pay Commission.
- Targets have been successful in achieving policy aims; without the previous targets (respectively for 60 per cent and two-thirds of median earnings), it is likely we would have a lower minimum wage today. Targets also have the advantage of creating a forward path of rate increases that helps employers and others to plan.
- However, there are technical challenges in creating this path and implementing targets linked to specific dates because they a) rely on forecasts; b) can be less responsive to changing economic circumstances; c) diminish flexibility the closer you get to the target year; and d) are subject to measurement issues.
- Qualitative approaches leave more room for judgement and negotiation, a key strength of the Low Pay Commission. They also avoid the issues with targets being difficult to operationalise and inflexible to circumstances. However, without a target, calculating a path to plan against would not be possible, reducing predictability for employers. In addition, the evidence-based nature of the LPC means it can be difficult to argue for ambitious increases without evidence of their costs or benefits.
- A compromise or hybrid option could maintain a floor – e.g. two-thirds of median earnings – but leave increases above that down to the economic evidence.

Introduction

60 In previous advice we have considered various models for uprating minimum wages (LPC, 2024b). For example, we looked at geographically varied minimum wages, some kind of indexation (such as to inflation), or measures based on a basket of goods and services needed to deliver a certain standard of living. However, in that advice we ruled these measures out as either being too complicated or not responsive enough to economic conditions. Our view is that the most viable approaches are those that have been used to date. These are wage bite target-based approaches, such as those under the National Living Wage (NLW), and qualitative approaches where the Government sets out its broad objectives without tying this to a numerical objective or timeline. In this chapter we discuss the pros and cons of these models, as well as how they could be combined.

Target approaches

61 When considering a further NLW target, it's worth thinking about the merits and design of targets in general – not just their level. Since 2016 the NLW has targeted a percentage of median hourly earnings of those eligible for it, known as the 'bite', at a point in the future. The first target was announced in July 2015 and targeted 60 per cent of median earnings of those aged 25 and over in 2020. The second was announced in March 2020 and targeted two-thirds of median earnings of those eligible in 2024. In the next chapter we discuss the rationale and background to these targets.

62 In 2019, the Government also accepted our recommendation to lower the NLW's age of eligibility. This meant that over the second target period (2020-2024), the NLW eligibility age fell to 21. This took place in two steps. It moved from 25 to 23 in 2021 and then to 21 in 2024. The age thresholds directly affect the level of the target. Younger workers have lower average wages and so their inclusion in the NLW-eligible population lowers median earnings and hence the NLW rate needed to hit the target. These targets tie the wages of the lowest-paid to the average in the eligible population, so relative pay inequality cannot rise in the bottom half of the distribution.

The forward path is a key advantage of targets…

63 Throughout the NLW's existence we have published a path for our estimates of the NLW increases required to achieve the target by the specified date. We have consistently heard that employers find this useful, as the advance notice helps them plan and prepare. For example, those negotiating long-term contracts use the path to negotiate a price. It is possible that the forward path is one reason why employment effects have been limited so far, though we have no direct evidence for this.

…but calculating the path is difficult and unpredictable

64 Our starting point for calculating the path to the future target is estimating the level of median hourly pay each April. But these estimates come – with a six month delay in accessing the data – from an annual survey[6] that is subject to sampling error. There is a long-term decline in responses to social surveys, which can be worsened further in some circumstances. For example, economic shocks can cause survey response rates to fall, as happened during the pandemic. Also, changes in the structure of the economy, for example the loss of low-paying jobs, would cause compositional effects which can artificially raise average pay levels and therefore the (NLW) target.

65 From that benchmark in April, we roll forward our estimate of median hourly pay growth to August using the latest available weekly pay growth data as a proxy for hourly pay growth.[7] Weekly pay is far more responsive to economic circumstances than hourly pay. In the event of a negative shock,

[6] The Annual Survey of Hours and Earnings (ASHE) takes place each year, with a reference pay week (the period of time it asks questions about pay and hours) in April (after the end of the financial year and in a week not affected by Easter).

[7] We conduct our deliberations in October each year, when the most recent available wage data from the ONS (Average Weekly Earnings) cover the period up to August.

workers are more likely to lose hours of work than see their hourly rate change. So weekly pay outturn and forecasts inject variability into the model, while proxying for something which is less responsive to economic circumstances. This tension doesn't matter in 'normal' economic times, when weekly and hourly pay tend to move in tandem. But it does during shocks, when the impact of the NLW matters more too.

66 From August we use independent forecasts of future average weekly pay to predict what pay will be at the target date. We then aim for a percentage of that level. But forecasts are inherently inaccurate. In recent years, forecasts have tended to undershoot actual wage growth. This has led to our NLW recommendations also undershooting the target. Forecasts are also revised throughout the year. This means that the rate we recommend in October may be different to what we estimated even just months before. These revisions can catch employers, workers and policy makers off guard.

Commissioner judgement remains vital

67 These technical difficulties highlight the importance of scope for Commissioners to use their judgement. No formula can account for all the complexity and nuances of the economy and labour market. However, a target means there is less scope to use this judgement.

68 The LPC's flexibility to respond to economic circumstances was limited during the first phase of the NLW from 2016 to 2020. However, in 2020, the Government introduced the concept of an "emergency brake" in which the LPC should "if the economic evidence warrants it – recommend that the government reviews its target or time-frame. This emergency brake will ensure that the lowest-paid workers continue to see pay rises without significant risks to their employment prospects."

69 Even with the brake, the scope to respond to economic circumstances diminishes with each year closer to the target. In each year of the path there is the option to 'front load' or 'back load' increases in response to changing economic conditions. That is, we can go slower or faster in any year, knowing we can re-adjust in the next. But this flexibility diminishes throughout the target period and in the final year there is no longer scope to front or back load without pulling the "emergency brake", which means the Government would not achieve its goal.

70 New data may be able to improve our projection method for the target. Should Government decide on another earnings bite target we would like to take the opportunity to review the methods and sources of data we use for this. When the NLW began, the evidence was more limited. We did not have access to the Real Time Information (RTI) measures of monthly pay for example. Hourly pay data from RTI would be a much closer ideal but it is not currently available. The Bank of England have recently updated their short-term forecasting approach, to produce a 'nowcast' of key labour market indicators. We would like to explore options for improving our method of projecting pay, using new data sources and methods.

Qualitative or principle-based approaches

71 Targets are not the only way the Government can achieve its aims. Before the NLW, the LPC's remit was qualitative in nature. Rather than a numerical target it asked the LPC to recommend "NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects" (Department for Business, Innovation and Skills, 2014). Qualitative remits maximise the role of evidence but leave more room for judgement and negotiation, a key strength of the LPC. They also avoid the issues with targets being difficult to operationalise and inflexible to circumstances.

72 However, as an evidence-based body, it can be difficult for the LPC to argue for more ambitious rate increases without evidence of their costs and benefits (Manning, 2015). This kind of evidence only really comes from implementing ambitious increases and monitoring the impact. This means that if the Government wants more ambition and the evidence on the impact of this ambition does not exist then it needs to provide the impetus, via a target or an ambitious qualitative remit, and to accept some risk.

Qualitative remits can be adapted to the policy aim

73 Moving back to a principle-based approach need not automatically mean the pre-NLW remit. Indeed, this is an advantage of qualitative approaches. The language can be adapted to the policy objective without having to put this into concrete numbers.

74 For example, if the Government's aim is to protect living standards of low-paid workers it can give us a remit to: "increase minimum wages to protect the living standards of low-paid workers but without significant risk to their employment opportunities". This would leave the trade-offs for the LPC to consider and communicate back to the Government in our advice.

75 Qualitative remits can also be flexible about the level of ambition and tolerance of job loss. For example, the Government could switch back to our old remit and, importantly, its old risk appetite ("without affecting employment"). More ambitiously, it could ask us to push pay as high as possible without "significant/substantial risk to employment" or urge us to "continue with ambitious increases that raise the bite."

Qualitative remits are more responsive to economic conditions

76 Without the need to hit a target by a certain point, there would be greater flexibility to respond to economic conditions. In addition, the LPC's role would be clearer, as both worker and employer representatives would know the LPC's recommendations are based on the best available evidence and Commissioners' judgement rather than a numerical target.

Removing the target would also remove the need for forecasting the path rates, but would mean employers have less information to plan

77 While no longer needing to plot a path to a future target would reduce some complexity, this would be one of its main disadvantages – there would be no forward path. The target path, as difficult as it is to calculate to the satisfaction of employer stakeholders seeking certainty, does give employers something to benchmark for the coming years. We have heard repeatedly that this is very useful for employers. But plotting a forward path would be far more difficult without a target. However, as we have noted, plotting this path is difficult and so the rate we recommend in any October may be different to what we estimated even just a few months before. These revisions can catch employers, workers and policy makers off guard.

Hybrid approaches have the potential to work well

78 Finally, it's important to note that target-based systems and qualitative approaches need not be entirely separate. For example, the Government's remit in 2025 combined the aim of not falling below two-thirds of median earnings with scope to go above that if economic conditions and the evidence supported it.

79 So one option is for the Government to give us a qualitative remit that asks the LPC to "ensure that the minimum wage grows in real terms and does not fall below two-thirds of median earnings but without significant negative effects, such as job loss or price rises." This would give the LPC flexibility to respond to economic circumstances but protect the progress made by the NLW target so far in terms of inequality.

80 A further option that gives a clear idea of the end goal but maintains the flexibility to respond to economic circumstances is to adopt a target – for example a certain level of bite of median earnings – but without an end point or target year. This would give the LPC and stakeholders a clear sense of the goal in mind, but would allow the LPC the discretion to decide how quickly to get there. The difference between this option and the previous one is that there would be greater impetus to ensure the bite rises over time.

Chapter 3 – Stakeholder views on further targets

Key points

- Worker representatives advocate a further target (75 per cent of median earnings) and getting to £15 an hour as soon as possible.
- Employer representatives do not want another target, instead they want a return to rates set by economic conditions.
- Employers tend to think the NLW should be about fairness in the workplace. Some are sceptical about its ability to reduce inequality further.
- Worker representatives think the NLW should aim to tackle in-work poverty and inequality and cover living costs of full-time workers. Some accept the limits of hourly pay rises, urging additional action on hours of work and other costs like childcare.
- All stakeholders advocate for the importance of the LPC's social partnership model.

Introduction

81 In recent years, we have been hearing stakeholders' views on the NLW's future. We initially consulted on this in 2023, but in subsequent consultations, the views of workers and employers have remained consistent. We acknowledge however, that recent policy changes and debates, particularly the National Insurance Contributions changes in 2025 and the ongoing development of the Employment Rights Act (ERA) will likely have affected stakeholder views.

Stakeholder views on the purpose of the minimum wage vary

82 In 2023 (when we were nearing the 2024 target date for the NLW) we asked representatives of employers and employees for their views on the purpose of the minimum wage. Unions tended to relate the minimum wage primarily to the cost of living. Unite thought the NLW should be set to "tackle inequality and in-work poverty." For Usdaw, the NMW should provide a reasonable level of pay for workers who are working full-time to cover their costs of living. "We believe that the rate of the NMW should be enough to cover the basic cost of living." The Trades Union Congress (TUC) saw the importance of the LPC as "setting ambitious economy-wide minimum standards," with collective bargaining the best way to achieve higher standards beyond this.

83 For the Confederation of British Industry (CBI), the NMW's role was to reduce inequality, but this had reached its limits. "The main tools to address inequality sit outside of the purview of the LPC and whilst reducing inequality remains a legitimate objective, seeking to achieve it via compression of low-median wages alone has reached the limits of its effectiveness. Only focusing on income inequality in this segment of the distribution ignores that a considerable proportion of the recent divergence in living standards and social mobility between groups has been driven by other factors, such as household wealth, whilst access to work opportunities has generally increased equality, particularly for women." The Association of Convenience Stores (ACS) framed the NLW as about fairness: "Striking the balance

between fair wage rates for workers and maintaining businesses competitiveness and employment generation is crucial".

Worker and employer representatives are divided on a further target

84 In 2023, the TUC argued for "a more ambitious 75 per cent target … alongside a government plan for higher wage growth for all workers." That target, it argued, "should be set on as fast a timeframe as possible" and the LPC empowered "to test the limits of minimum wage policy, alongside consideration of prevailing economic conditions." In its 2025 submission, it continued to argue for a 75 per cent target, to "raise pay for millions of workers, improve living standards, and shift our economy away from an overreliance on low paid work". Unison and Usdaw supported this transition to a higher bite, while Unite argued that "such a rise would be economically viable, progressive, and disproportionately benefit disadvantaged groups".

85 Employers on the other hand, tend to prioritise the LPC's independence and responsiveness to economic conditions over a further target. In arguing that the NLW should be allowed to fall below the level of two-thirds, the CBI told us last year that: "the relative balance of pursing [the NLW's aims] at the cost of growth has shifted, and it is now time to prioritise the long-run living standards." ACS argued that future decisions on wage rates should not be "driven by arbitrary or politically motivated targets, but instead reflect independent, objective analysis of economic conditions". Make UK told us its members' views had hardened against a target in the past 12 months.

86 In our 2023 discussions, some employers accepted that without a target there can be no forward path to plan against, while others prioritised predictability. Make UK said: "removing the longer-term visibility [not having a target] may improve employer confidence", because new rates would be "genuinely reflective of the economic circumstances". For others, though, predictability remained important. One large hospitality employer urged "forward visibility of NLW plans beyond 2024 as soon as possible, to aid business planning". The LGA (Local Government Association) note that "Predictability is also key…Having a target for the NLW that is reliant on unknown future figures is deeply problematic for employers and we would strongly urge those setting the next NLW policy to ensure its growth or review is as predictable as possible. A multi-year approach would greatly assist, ideally with even increases rather than erratic increases from one year to the next".

Stakeholders agree on the value of LPC's social partnership model

87 While they may have differing views on the purpose and direction of the minimum wage, stakeholders agree on the value of a social partnership model, which ensures both worker and employer voices are heard. The Recruitment and Employment Confederation (REC) argued that the LPC's "composition as a genuine social partnership with independent economic expertise … is important to the widespread effectiveness and acceptance of minimum wage policy." The British Retail Consortium (BRC) argued for a continuation of the LPC model, noting that Commissioners' "diverse expertise and background … enable a full analysis of the impact of increases." Usdaw thought the LPC's role was "critical. The tripartite structure of the Commission gives workers a voice, alongside businesses and independent commissioners and allows different perspectives to be aired and issues to be explored. This is important in ensuring that the National Minimum Wage and National Living Wage have broad support."

Chapter 4 – Criteria for the 2020 and 2024 targets

Key points

- The rationale for the first NLW target (60 per cent of median earnings by 2020) was that economy wide employment growth would likely outstrip any negative effects of the NLW. The rationale also drew on international evidence and LPC evidence on the impacts to date.
- The second target (two-thirds of median earnings by 2024) had the broader aim of 'ending low pay'. To inform its decision, the Government commissioned Professor Arin Dube to review the international evidence. He found that it pointed to *"a very muted effect of minimum wages on employment, while significantly increasing the earnings of low paid workers"*
- Previous targets had responsiveness to economic conditions built in. This should be case for future targets too as conditions cannot be predicted far in advance

Introduction

88 In considering the criteria for a further target for the NLW it is useful to look back at the rationales for the previous two targets. Instead of criteria that had to be met before they were implemented, various Government speeches and documents paint a picture of the rationale, the economic conditions of the time and views on the likely impact.

89 Each target was announced by the Chancellor of the Exchequer of the time as part of a Budget speech and was accompanied by an OBR assessment of the likely impacts. This chapter describes what was said about the targets then and their broad rationale, and we look in more detail at economic conditions at the time and the OBR's expectations in Chapter 6.

The 60 per cent by 2020 target

90 The target to reach 60 per cent of median earnings by 2020 was announced in July 2015 as part of an "emergency" budget by then Chancellor George Osborne. This was shortly after the May 2015 general election. In Chapter 6 we look in detail at the economic conditions at that time, but broadly speaking the employment rate was rising, unemployment was falling, but real wage growth had been historically weak.

91 The original impetus for the 60 per cent level was the report "More than a minimum", which was referenced in the Chancellor's Budget speech in 2015. This report was written by the first chair of the Low Pay Commission, Sir George Bain, and a panel of experts and published by the Resolution Foundation in 2014. It said *"Our view, based on UK and international evidence, is that a wage-floor worth 60 per cent of the median wage is a reasonable lodestar"* (Resolution Foundation, 2014). We look at international comparisons in Chapter 5.

92 The Chancellor's rationale was that the tax credit system was subsidising low-paying employers and that this subsidy was contributing to the UK's productivity problem[8]. Also, the policy aim of lowering borrowing, making business taxes more competitive and welfare reform meant that *"Britain is able to afford a pay rise"*. The remit itself said *"A remaining, key economic challenge the Government wants to address is to move away from a low wage, high tax, high welfare society and encourage a model of higher pay and higher productivity – supporting people who work hard and want to get on in life to fulfil their aspirations"* (Department for Business, Innovation and Skills, 2015).

93 In terms of economic criteria, the Chancellor leant on the OBR's assessment that the NLW's small negative effect on jobs would be comfortably offset by overall jobs growth. Impacts on profits would be offset by lower corporation tax. The Chancellor said:

> *"The OBR today say that the new National Living Wage will have, in their words, only a "fractional" effect on jobs. The OBR have assessed the economic conditions of the country, and all the policies in the Budget. They say that by 2020 there will be 60,000 fewer jobs as a result of the National Living Wage but almost 1 million more in total. They also estimate that the cost to business will amount to just 1% of corporate profits. To offset that I have cut corporation tax to 18%. To help small firms I will go further now and cut their national insurance contributions. From 2016 our new Employment Allowance, will now be increased by 50% to £3,000".*

94 The Budget documents also noted that "*While some empirical studies have found reductions in employment from increases in the minimum wage, these have generally been modest. Other studies have been unable to find robust evidence of any negative employment effect"* (HM Treasury, 2015b). It also cited the Low Pay Commission's 2011 Report (LPC 2011) to say: *"In summary, the consensus of the research findings of the impact of the National Minimum Wage in the UK is that it has not significantly adversely affected employment but that it may have had a small negative effect on hours".*

The two-thirds by 2024 target

95 The target to reach two-thirds of median earnings by 2024 had a longer public gestation period than the one before it. Then Chancellor Philip Hammond announced his ambition to *"end low pay"* in his October 2018 Budget. He said: *"…next year we will need to give the LPC a new remit beyond 2020. We will want to be ambitious, with the ultimate objective of ending low pay in the UK. But we will also want to be careful – protecting employment for lower paid workers. So we will engage responsibly with employers, the TUC, and the LPC itself over the coming months, gathering evidence and views, to ensure we get this right – and I will confirm the final remit at the Budget next year"* (HM Treasury, 2018).

96 The following spring (2019) he announced that Professor Arin Dube would assess the international evidence on minimum wages to inform this work. However, the 2019 October Budget that would have announced the new remit, informed by both the Dube review and the LPC's advice, was

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[8] "*It can't be right that we go on asking taxpayers to subsidise, through the tax credit system, the businesses who pay the lowest wages. That subsidised low pay contributes to our productivity problem"* (HM Treasury 2015a).

cancelled because a General Election was called for 12 December. Both the Dube review (Dube, 2019) and our own advice (LPC, 2019) on the Post 2020 framework were published on 4 November 2019.

97 The Dube review concluded that:

> *"Overall the most up to date body of research from US, UK and other developed countries points to a very muted effect of minimum wages on employment, while significantly increasing the earnings of low paid workers. Importantly, this was found to be the case even for the most recent ambitious policies.… based on the overall weight of the available evidence, there is room for exploring a more ambitious NLW remit in the UK in the coming years, in the range of 60% to two-thirds of median hourly earnings. However, given that the evidence base is still developing, it would also be prudent to accompany more ambitious minimum wages with a clear mandate that the Low Pay Commission (LPC) can use to implement, evaluate and recalibrate any proposed changes to the NLW, thereby designing in responsiveness to any unforeseen impacts if required. To assist this, government should look to improve the evidence base and the quality of data used in assessing the impact of minimum wages."*

98 When the two-thirds target was announced on 11 March 2020, the labour market still looked healthy. The employment rate had just hit a record high of 76.5 per cent in the final quarter of 2019 and real wage growth had returned, albeit not to pre-financial crisis norms (ONS, 2020). However, there was a single issue dominating the day. The opening of then Chancellor Rishi Sunak's budget speech said:

> *"I want to get straight to the issue most on everyone's mind – coronavirus COVID19. I know how worried people are. Worried about their health, the health of their loved ones, their jobs, their income, their businesses, their financial security. And I know they get even more worried when they turn on their TVs and hear talk of markets collapsing and recessions coming. People want to know what's happening, and what can be done to fix it."*

99 So the 2024 target of two-thirds of median earnings was announced on the same day that the Bank of England and Government took action to support the economy in the wake of the pandemic (Bank of England, 2020). Later in that speech the Chancellor set out the new target and its rationale of improving living standards:

> *"Today we're publishing a new Remit for the independent Low Pay Commission. They now have a formal target that, as long as economic conditions allow, by 2024 the National Living Wage will reach two-thirds of median earnings. On current forecasts, that means a living wage of over £10.50 an hour.*
>
> *We promised to end low pay – we're getting it done. And as people earn more – we'll also cut taxes on their wages. I am increasing, in just four weeks' time, the National Insurance threshold from £8,632 to £9,500. That's a tax cut for 31 million people, saving a typical employee over £100.*
>
> *And taken together, our changes to the National Living Wage, income tax, and now National Insurance…mean that someone working full time on the minimum wage will be more than £5,200 better off than in 2010."*

Conclusion

100 While there weren't any criteria that had to be met before being implemented, each of the two previous NLW targets had a rationale, though they differed from one another. The first leant heavily on the OBR's prediction of employment growth and ex-ante assessment, the second drew on the NLW's impacts to date and the international evidence.

101 However, both targets had responsiveness to economic conditions built in. Reaching the first NLW target to 2020 was *"subject to sustained economic growth".* The LPC interpreted this as one per cent GDP growth per annum as this was the OBR's definition at the time. The thrust of our advice on the post 2020 framework was to broaden this as it was too restrictive (LPC, 2019).

102 This advice was reflected in the framework for the two-thirds target, which was to be met "as long as economic conditions allow", giving us the scope to respond to economic circumstances according to our judgement, rather than a threshold or particular indicator. Likewise, the Dube (2019) review concluded that the NLW had done little harm so far, as had other minimum wages internationally, and so there was room to explore higher minimum wages. But he said we should be *"designing in responsiveness to any unforeseen circumstances"*.

103 This responsiveness is a recognition that it is difficult to predict what will happen so a pragmatic approach is needed. In essence, damage isn't done by setting an ambitious target, it's done by reaching it if the economic conditions aren't right or the NLW and/or its target is set too high.

Chapter 5 – International evidence

Key points:

- The NLW has led to the UK moving up international rankings of minimum wage "bites".
- France, New Zealand and Korea have comparable economies and minimum wage bites. As none of these have announced plans for further ambitious rises, doing so in the UK would likely move us to the forefront of advanced economies in terms of bite.
- Professor Dube's review of the international evidence was key to the 2024 target's rationale. He said minimum wages so far had "muted" effects on employment, so there was scope to explore ambitious bites, but staying flexible. He hasn't repeated his review, but has updated his analysis of all the relevant international studies. His conclusions in 2024 remain that employment impacts are muted.
- However, both the national and international evidence bases have been affected by the pandemic. Covid-19 affected the evidence base itself by lowering response rates to surveys. It is also difficult to separate pandemic effects from those of the minimum wage as many low-paying sectors were also affected by shutdown mandates. This means there is limited research covering minimum wage changes since the pandemic in both the UK and countries with similar or higher minimum wage bites.

Introduction

104 In this chapter we look at how the UK's wage floor compares internationally. We also consider the international evidence on minimum wage impacts as Professor Arin Dube's review of this in 2019 was a key part of the rationale for the 2024 target.

The National Living Wage compared internationally

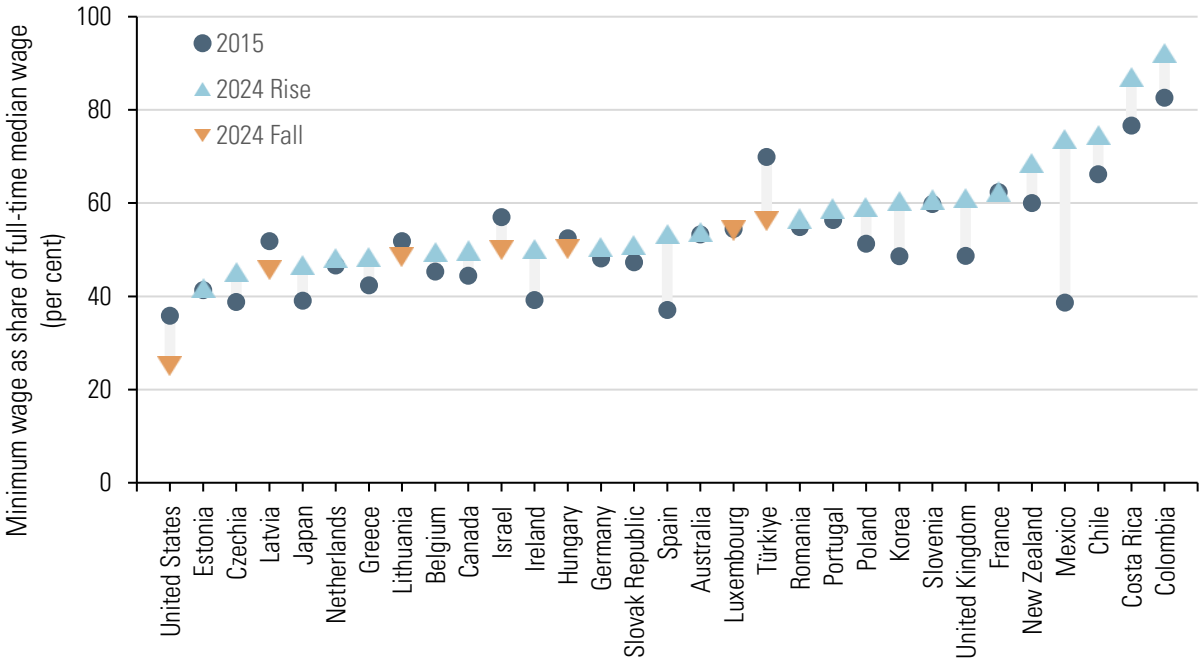
105 Direct comparisons across countries require context. Each country has a different labour market structure (e.g. different age profiles, mixtures of part-time and full-time employment) and different sectoral make-ups (e.g. manufacturing versus services or tradable versus non-tradable sectors). Each country also has different sized economies, labour laws and tax and benefit systems. These differences mean that minimum wages are likely to have different impacts in different countries. The differences also make direct comparisons of minimum wage bite more difficult. In particular, the OECD data on minimum wage bites compares the minimum wage to the median for full-time workers. This distorts comparisons for countries like the UK with relatively more part-time jobs.

106 Nevertheless, a simple comparison of minimum wage bites across countries shows that before the NLW was first introduced, the UK's bite ranked around the middle of the group of OECD countries with minimum wages. Comparisons like these were part of the justification for a 60 per cent of median pay target in the Resolution Foundation's 2014 report 'More than a minimum'. This report was influential in developing the NLW policy. It found international comparisons to be "*reassuring*" as: "*OECD data suggest that the UK minimum wage is 47 per cent of median full-time earnings, which is 7 percentage*

points lower than its bite for all workers. In a number of countries the NMW for full-time workers is several percentage points higher (for example, 60 per cent in New Zealand and 53 per cent in Australia). This implies an overall bite of 60 to 65 per cent in leading countries, suggesting that a NMW of 60 per cent of the overall median would put the UK somewhere in the top third of developed economies."

107 In the 10 years or so following the NLW's introduction, it's clear that the UK's wage floor has risen up the international rankings in terms of bite. The change in the UK's minimum wage bite is shown in Figure 2. It shows that among advanced economies, only France and New Zealand have higher bites. It also shows that the UK joins a small group of advanced countries that have increased their minimum wage bites significantly in recent years. This group includes New Zealand, Korea, Poland, Ireland and Spain – though increases in the latter two countries were from relatively lower levels.

Figure 2: Comparison of international minimum wages relative to median wages of full-time workers, OECD countries, 2015-2024



Source: LPC estimates based on OECD real minimum wage and average wage data (in 2024 constant prices at 2024 USD PPPs).
Note: Median and/or minimum wages for some countries are converted between different periods (e.g. monthly to hourly) to maximise comparability.

108 It is difficult to predict what decisions other countries will take with their minimum wage policies in the future. But we can look at the recent policy choices of the countries with similar bites and similar economies to the UK – France, New Zealand and Korea.

109 France has a similar bite to the UK, but it has had a relatively high bite for many years. The French minimum wage, known as the SMIC, is set by a formula that takes account of inflation for low-income households and real wage growth.[9] This policy approach has been around for many decades,

[9] There is also a mechanism to raise the SMIC during the year if inflation goes above 2 per cent. In addition, there is an expert panel, which has the scope to recommend a 'boost' to the increase.

and since at least 2000 has kept the bite in France around 62-63 per cent in most years. Without a substantial change to the policy, France's bite is likely to remain close to this range.

110 In Korea, the bite increased rapidly from 52 to 62 per cent between 2017 and 2019. This was driven by the 2017 election of an administration promising "*income led growth*" (OECD, 2022). However, since then the bite has fallen slightly and increases have been less ambitious. This may be partly due to evidence suggesting these large increases had some negative impacts. An OECD economic review noted that *"The 29% hike in the minimum wage during 2018-19 led to a slowdown in overall employment growth despite five sets of measures to help small firms cope with the increase and a sharp rise in public employment"* (OECD, 2022). So, without a substantial change in policy, the bite of the Korean minimum wage is unlikely to increase ambitiously in the coming years.

111 The bite of the minimum wage in New Zealand has increased rapidly since 2018. During the 2017 general election campaign, the incoming administration campaigned to increase the minimum wage from $15.75 to $20 by 2021 (Ministry of Business, Innovation and Employment, 2018). The combination of reaching this target and subsequent increases meant the bite rose from 61.4 to 68.7 per cent between 2017 and 2024. However, a change of Government in 2023 led to a change in policy. The 2023 Coalition Agreement between New Zealand National Party and New Zealand First committed the Government to *"moderate increases to the minimum wage every year".* As a result, subsequent increases have been less ambitious. For example, in 2025 the rate increased by 1.5 per cent ($0.35 from $23.15 to $23.50), the lowest cash and percentage increase in at least 10 years.

112 Looking across the three countries with the most similar minimum wage bites and economies, none have imminent plans for further substantial increases in the wage floor.

International evidence on minimum wage impacts

113 A key part of the rationale for the 2024 NLW target was Professor Arin Dube's review of the international evidence on the impact of minimum wages, commissioned by HM Treasury (Dube, 2019). He found that minimum wages had a "muted" effect on employment. He concluded that there was scope to explore more ambitious targets, subject to the evidence on minimum wage impacts.

114 Professor Dube's conclusion about the "muted" effect comes from his favoured method for establishing employment impacts of minimum wage changes, the Own Wage Elasticity (OWE). His overall assessment was that:

> *…The median OWE across the 48 estimates from various countries and affected groups is around -0.16, which suggests that the minimum wage raises wages much more than it has any effect on jobs. Moreover, for the set of studies that consider broad groups of workers the median OWE estimate is quantitatively close to zero (-0.04).*

115 Appendix 2 explains OWEs in detail, but in short it tells us how employment for the specific group affected responds to an increase in the average wage of that group induced by the minimum wage change. So in this example, an OWE of -0.16 means that for every 1 per cent increase in average wages among workers affected by the minimum wage over and above what they would have received

in the minimum wage's absence (which is assumed to be the pay rise in line with median earnings), employment falls by 0.16 per cent.

What has happened since Professor Dube's 2019 review?

116 While Professor Dube has not directly updated his review of the evidence in a UK context, he has done the next best thing. He has created an online repository of OWE estimates (Dube and Zipperer, 2025). At the time of his 2019 review he cited 48 estimates derived from dozens of studies. The online repository now has 97 studies from 9 countries including the UK, Canada, Germany, Hungary and Portugal, although the bulk of the studies (77) are from the US. In 2024 he and colleagues produced a comprehensive review of the international evidence entitled "Minimum Wages in the 21st Century" (Dube and Lindner, 2024).

117 As always with international evidence, there are questions around how relevant findings from other countries are to outcomes in the UK. Throughout this report, we have emphasised that the impacts of the minimum wage are determined in concert with other policies, as well as the broader economic environment. Nevertheless, understanding impacts in other countries can help us to understand potential impacts in the UK.

118 The conclusions drawn from these studies are largely the same as in his 2019 review. The median OWE across these studies is -0.15, although, this hides some variability between groups. Studies for the overall workforce find a median OWE of 0. The negative results are driven by studies of the groups that are more affected by the minimum wage. For example, the median for studies of restaurants and retail – typically among the most affected sectors – is -0.15. Studies of teenagers find even higher negative results at -0.21.

119 From the studies available at that time that Minimum Wages in the 21st Century was published, Professor Dube concluded that *"The median OWE estimate from the analysis of 72 published studies is -0.13, suggesting a minor impact of the minimum wage on jobs"* (Dube and Lindner, 2024)

120 This OWE is much lower than assumed by the OBR in its ex-ante assessments of the NLW. For the initial target to 2020, the OBR assumed an OWE of -0.4. This led to their prediction in July 2015 that the NLW may increase unemployment by between 20,000 and 110,000 with a central estimate of 60,000 by 2020. However, because the first target was reached with little evidence of job loss, it reduced its OWE assumption to -0.3 when predicting the impact of the 2024 target.

121 Our best estimate of the OWE for the NLW comes from a study we commissioned from the Institute for Fiscal Studies (IFS). We place weight on this estimate because it covered the pre-pandemic period, and it used well-adapted econometric methods and produced results that were robust to different specifications. The OWE identified in this study was -0.17 (Giupponi et al, 2024). While this figure was not statistically significant, it is very close to the Professor Dube's international estimate and suggests muted effects here also.

122 However, no one study can produce a definitive estimate of the impact. For example, our own internal analysis (LPC, 2023) found a slightly positive impact on employment over the same period of the

IFS study. For this reason, in the next chapter, we use a range of OWEs from these and other studies to estimate the potential impact of further increases in the NLW.

Issues with the international (and national) evidence base

123 Looking at the international evidence base reveals another issue with the current evidence base. Although Dube's review was published after the Covid-19 pandemic, the majority of the studies included – even those recently published – use data from the pre-pandemic period. As well as the expected time lag in carrying out and publishing studies, many countries experienced data issues during the pandemic. The UK's issues with the Labour Force Survey (LFS), our main source of employment data, are well documented.[10] In our 2025 Report we said "The poor quality of the LFS data in recent years has therefore hindered our ability to obtain reliable econometric results on the employment effects of NLW increases in recent years" (LPC, 2026). This was because the lower response rate meant the LFS likely undercounted people in employment. While the quality of the LFS has improved recently, the issues mean that comparing over time remains a challenge. But other countries have had similar issues (e.g. Dutsch, Ohlert and Baumann (2025) flag that this was also the case in Germany).

124 While some recent studies have been undertaken, the results are often not 'cut and dry'. For example, one of the more recent minimum wage changes to be studied is the increase in California's 'fast food' minimum wage to $20 per hour in September 2023. Clemens, Edwards and Meer (2025) find that it decreased employment in the sector by around 3 per cent relative to other parts of the US (they report an OWE of -0.34). However, Hamdi and Sovich (2025) obtain significantly different results. They find that hiring in the sector decreased, but overall employment increased due to reduced staff turnover, resulting in a positive OWE of 0.19.

125 While Dube's review is reassuring on employment effects, some of the studies covered highlight the risks of unforeseen, non-employment effects from minimum wage increases. For example, Davies, Park and Stansbury (2024), a US study, finds a large increase in the incidence of workplace injuries because of the minimum wage. The effect is largest for injuries resulting from "cumulative physical strain", suggesting increasing work intensification.

126 While this is just one study it is consistent with our findings around work intensification. We've heard that employers are asking their low-paid staff to work harder and to higher standards – see our recent reports (LPC, 2023 and LPC, 2024). If wishing to increase the minimum wage further, the Government should consider the potential unintended consequences and how other labour market regulation and enforcement can offset these risks.

Conclusion

127 Before the NLW was introduced, the UK's wage floor was middle-ranked in terms of OECD bites. This meant that there were plenty of other countries to study to understand the potential effects

[10] See, eg, Financial Times – "How flawed data is leaving the UK in the dark" (7 Feb 2025)

of ambitious increases. This middle ranking was key to the rationale for the 2020 target. Then, Professor Arin Dube's 2019 review of the international evidence on minimum wages was a key part of the rationale for the two-thirds target in 2024. He found that employment effects were "muted" and so there was "room for exploring a more ambitious NLW remit". Since then Professor Dube has continued to monitor the international evidence and his conclusions remain broadly the same.

128 However, the pandemic has had a detrimental impact on the evidence base in the UK and other countries, meaning we don't have robust econometric estimates of the NLW impact post-pandemic. Also, the international evidence base covering the post-pandemic period is less comprehensive than it otherwise might be. This limits our scope to learn from other countries' recent experiences.

129 There is a further limiting factor to the international evidence base. The NLW's ambitious increases have moved the UK up the international rankings of minimum wage bites. This means there are fewer comparable countries with similar or higher bites of the minimum wage. Furthermore, none of these countries have announced plans for further ambitious rises. So doing so in the UK would likely move us to the forefront of advanced economies in terms of bite.

Chapter 6 – Conditions that would support further increases

Key points:

- Expectations for long-term conditions should drive decision making. But current economic conditions will likely shape stakeholder reactions to a further target
- It is not possible to be certain about how well the economy can absorb a higher target or the associated increases in the future. What really matters is the Government's risk appetite and the scope to respond to economic circumstances.
- However, some factors will increase the chances of success for a further target. Demand for labour is likely the key factor; the higher this is, the lower the risk from NLW increases. The NLW's first phase was characterised by high employment growth despite mediocre GDP growth. But we don't know if growth will be 'jobs-rich' in the future.
- If real wages grow then even unambitious minimum wage targets – such as freezing the bite at two-thirds of median earnings – would still improve living standards for the lowest-paid workers, but would increase the cash gap between the lowest paid and the middle.

Introduction

130 In this chapter we discuss the economic and policy conditions that are likely to increase the chance of success of a further target and whether those conditions are present. These conditions cover both the economic situation and broader Government policy. Economic conditions include the state of the economy and labour market, while policy conditions include, for example, funding levels for low-paying publicly-funded sectors, the state of the evidence base, and other policies that affect the labour market.

Economic conditions

Long-term economic conditions should drive decision making on a further NLW target, but are difficult to predict

131 The Government has asked us what criteria should be met to lift the target. Our view is that any target for the NLW should be grounded in long-term considerations. The first NLW target's economic case was essentially that predicted job growth over the following five years would outweigh any potential negative impacts (see Chapter 4). The second target juxtaposed short-term uncertainty and major concern about the pandemic's impact on the economy with an ambitious NLW target for the longer term.

132 It would be intuitive for us to reply to the Government's ask with a list of economic metrics and thresholds that need to be met. However, the evidence to date does not support the existence of specific thresholds, for example certain rates of GDP per capita or productivity growth. The NLW's first target was met during a period of weak economic and productivity growth. And yet the NLW successfully raised pay and living standards for low-paid workers without significantly damaging overall employment.

133 Even if we could identify these thresholds we just don't know with sufficient certainty whether those economic and labour market conditions will be met in several years' time. Neither do we know the Government's aim or risk tolerance. For example, if the Government is less concerned about negative employment effects, perhaps because it is confident about jobs growth elsewhere in the economy, then another target can be adopted with fewer reservations. But if it is concerned about negative impacts, for example on jobs or prices, then a more a cautious approach may be needed.

134 So instead of suggesting specific criteria, we discuss here the economic factors to be taken into account when considering implementing a further target.

Demand for labour is the critical factor

135 The principal economic factor that lowers the employment risks of further minimum wage increases is demand for labour. While we recognise that job loss is not the only potential negative impact (the next chapter covers this in more detail), our view remains that when demand for labour is strong, raising the cost of labour through increases in the minimum wage should have fewer negative effects than when it is weak.

136 In our review of the first NLW target (LPC, 2020), we said the "jobs-rich" growth of the late 2010s likely helped the NLW to raise pay without damaging jobs. "*We have seen the employment rate break record after record since the 2008 financial crisis. At the time the NLW was announced the employment rate had reached a 45-year high and the labour market was forecast to go on creating jobs at an ambitious pace. These forecasts were easily surpassed as the employment rate continued to move from strength to strength. This means that the first phase of the NLW target policy took place during a period particularly conducive to job growth and therefore, if anyone did lose their job, they likely had opportunities elsewhere.*"

Near term expectations for future labour market conditions contrast with longer term expectations, though the latter remain uncertain

137 The OBR's Economic and Fiscal Outlook (EFO) from March 2026 predicts greater job growth than when both the previous NLW targets were announced. It expects employment to grow by around 1.1 million between the first quarter of 2026 and the first quarter of 2031. This is more than the 900,000 expected between 2015 and 2020.[11] It also expects the employment rate to remain around 60.6 per

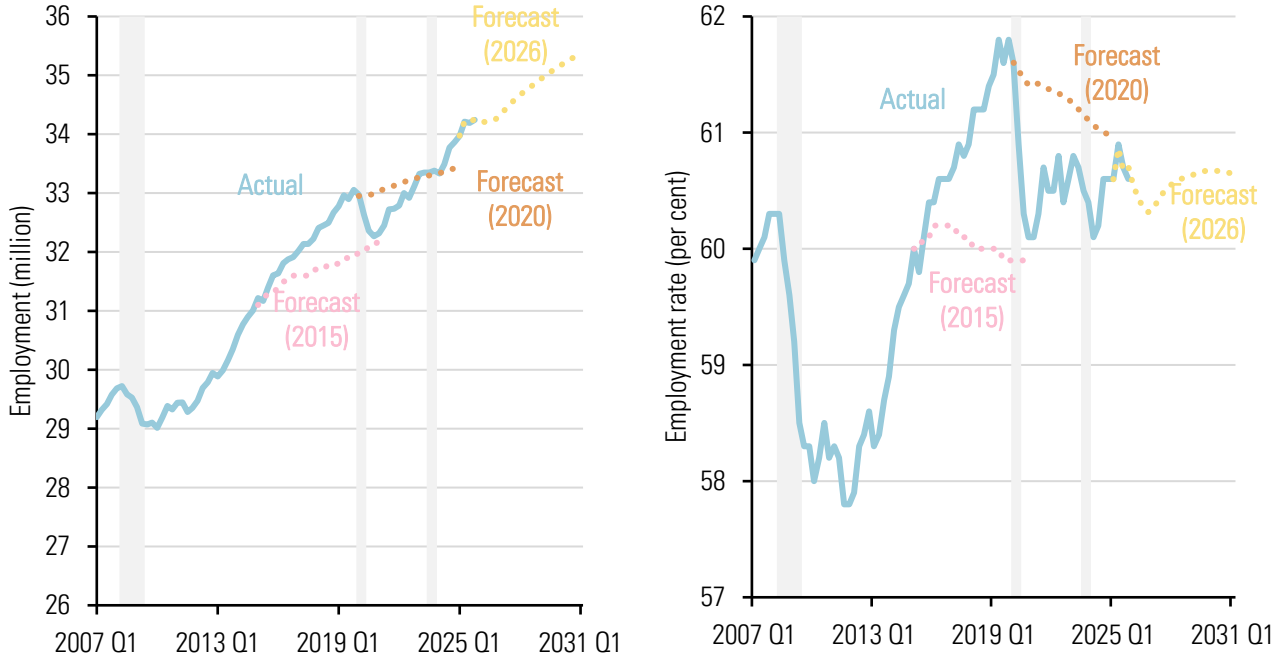
[11] 16+ employment was 31.1m in 2015 Q1 and expected to be 32m in 2020 Q1 (OBR Economic and fiscal outlook – July 2015).

cent, whereas for the previous two target periods it was expected to fall. Figure 3 shows the employment rate and level for those aged 16 and over as this is the measure the OBR forecasts, while most analysis in this document concerns the 16-64 employment rate.

138 A key caveat is that the March 2026 forecast expects minimal changes in the NLW. If the Government decides on another target, the OBR will likely reassess its view on future labour market conditions.

139 However, on the face of it, this evidence would seem to support a further target. In his rationale for the first NLW target, the Chancellor leant heavily on the OBR's prediction of economy-wide job growth exceeding predicted employment losses from the NLW (see Chapter 4). So these conditions – high overall employment growth exceeding anticipated job loss – may hold currently (we discuss the potential employment impacts in the next chapter). However, while the first target was met successfully without damaging employment, this was likely aided by actual employment growth being around double what the OBR expected in 2015.[12] So it may be that this level of growth is required again to ensure success again.

Figure 3: Comparison of OBR forecasts to outturn for employment levels (left panel) and employment rates (right panel), 16 and over



Source: LPC analysis of ONS Labour Force Survey data and OBR forecasts.

[12] The July 2015 OBR Economic and Fiscal Outlook expected employment to rise from 31.1m in 2015 Q1 and to 32m in 2020 Q1, but it actually rose to 33m.

Current economic conditions are very different from when the previous two targets were announced

140 Labour market conditions were strengthening when both previous targets were announced. In the summer of 2015, the 16-64 employment rate had just surpassed its pre-financial crisis high of 73 per cent. It then continued to increase in the first half of 2015 – reaching its highest rate for almost 45 years. Likewise, unemployment had been falling for three years from its financial crisis peak of 8.3 per cent to 5.7 per cent in early 2015.

141 The picture was similarly buoyant in early 2020 when the 2024 target was announced. The employment rate had just hit a record high in the final quarter of 2019, at over 76 per cent. Similarly, unemployment had fallen to a record low of 3.8 per cent at the end of 2019, as had inactivity at just over 20 per cent (ONS, 2020).

142 The 2024 target was announced on the eve of the pandemic, and as such the economic impacts of the pandemic were not yet known. The subsequently announced Coronavirus Job Retention Scheme (CJRS) superseded any concerns about minimum wage targets as the Government became effectively responsible for a large share of the nation's wage bill. After the pandemic and the CJRS had ended, the labour market was very tight, with record vacancies and jobs growth. This supported continued progress to the NLW's 2024 target of two-thirds of median earnings.[13]

143 By contrast, current labour market conditions are weakening. While rates of unemployment and employment are comparable to 2015 and 2020 when the previous targets were announced, the direction of travel is different. Unemployment had been falling for around 2 years in 2015 when the first NLW target was announced. In 2020, it had been falling for 6 years. By contrast as things currently stand (early 2026) unemployment has been rising for over two years and vacancies have been falling for over 3 years. More detail on the current labour market is given in LPC (2026).

144 Some areas of the low-paid labour market seem to be doing worse on these measures than overall, with jobs and vacancies in the retail and hospitality sectors jobs and vacancies falling faster than in other industries. This is a challenge for young people as they are more dependent on vacancies. Employment among young people is down and NEET levels are up. Setting a further target may be more credible when labour market conditions are improving.

The structure of the labour market is changing as well

145 Below the headline changes, there are shifts in the structure of jobs that have implications too. Retail and hospitality are the two largest employers of minimum wage workers, together accounting for around one-third of minimum wage jobs (Table 3.2 in LPC, 2026). But retail jobs have been in long-term decline and hospitality is facing its own challenges. Declines in retail jobs reflect a shift away from the

[13] Though the target wasn't hit in 2024. The combination of the combination of wage growth outstripping forecasts and the ONS changing the Annual Survey of Hours and Earnings methodology – our key source for measuring pay – meant that £11.44 was not high enough to reach two-thirds of median earnings. LPC (2025) gives more detail.

high street to online shopping. The trends for hospitality are more recent and down to a combination of factors (see LPC 2026 for further details).

146 The overall level of demand for workers matters, but there also needs to be sufficient demand for the jobs done by those most affected by the minimum wage. Structural changes – due to other factors beyond the NMW – may make it harder for certain groups, e.g. the low skilled, lone parents etc, to find work. Equally, changes to working patterns like working from home can make it easier for some to combine work with caring responsibilities for example.

147 More broadly, the scope for capital-labour substitution will determine further structural change in the labour market. Employers also tell us the rest of their cost base is an important consideration. When costs like energy and raw materials are high, this leads employers to look for savings elsewhere, sometimes this is from staffing.

148 Currently, employers in some sectors, particularly hospitality and care, rely on people. There is little scope for technology to replace or reduce the need for workers. But as technology improves this may not always be the case. In our most recent report (LPC, 2026) we found that use of AI among firms was still moderate in low-paying firms. However, it's clear that many employers across a range of sectors are seeking to become more productive through the use of AI and that this may affect employment. April 2025 data from the Bank of England's Decision Maker Panel[14] showed around one third expected it would reduce the number of employees in their business (LPC, 2026).

Long-term weak real wage growth has negative implications for minimum wages targeted on average wages

149 In a minimum wage system that targets a certain percentage of median wages, what is happening to median wages clearly matters. Real wages grew consistently for most of the 20th and early 21st centuries, even during periods of high inflation in the 1970s and 1980s. But real wage growth has been a major weakness in the UK economy since the 2008 financial crisis and this is linked to weak productivity growth. The stagnation of the last 17 years or so is historically unprecedented. The left panel of Figure 4 contrasts the consistent real wage growth from the mid-1970s to the late 2000s, with the plateauing since then. However, it also shows that the minimum wage and NLW maintained that pre-financial crisis trend in real wage growth for the lowest paid.

150 This weak real wage growth is also unusual by international standards. The right panel of Figure 4 compares the UK with the rest of the G7 since the financial crisis. The UK's weak growth is matched by Italy and Japan, but comfortably outperformed by France, Germany, the US and Canada. In fact, the UK ranks 31 out of 36 countries across the OECD for real wage growth since 2007, performing better than only Greece, Italy, Japan, Mexico and the Netherlands.

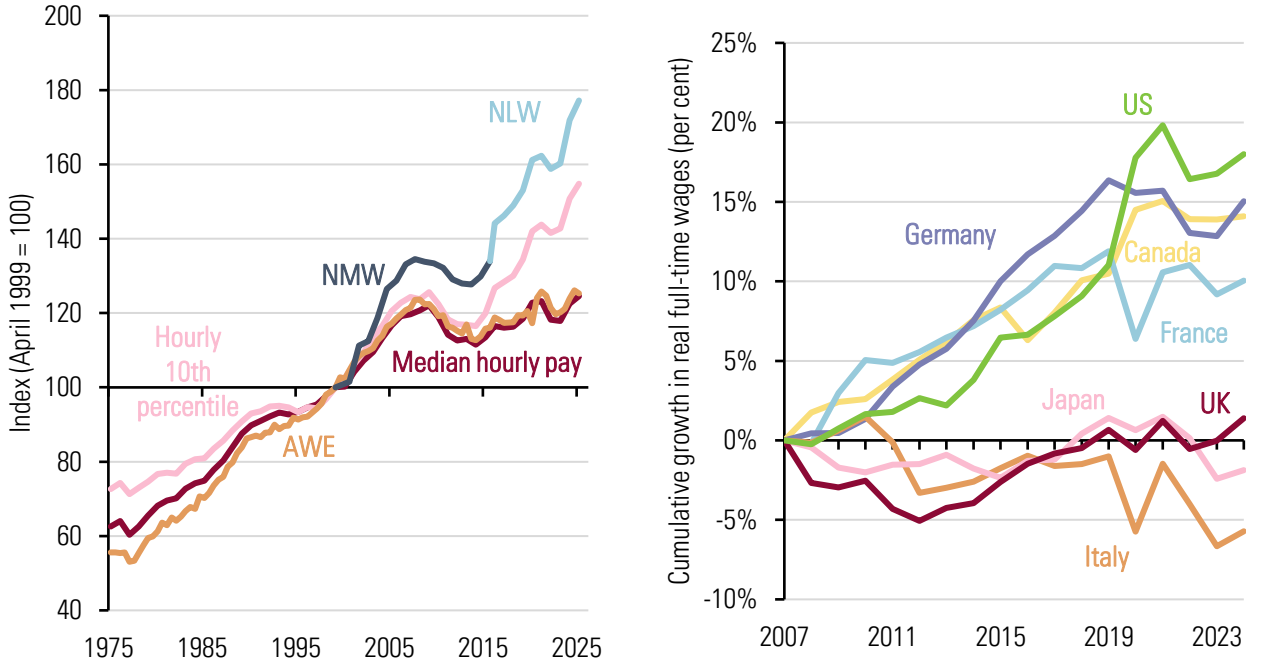
151 If real wages had followed the linear trend over the 50 years or so before the financial crisis then (nominal) average (mean) weekly wages would be around 23 per cent higher than they are today. Rather

[14] The Decision Maker Panel is a monthly survey of around 10,000 CEOs and CFOs in UK businesses with more than 10 staff.

than an average annual salary (annualised from AWE) of £38,219, it would have been £46,608. Applying this logic to the National Living Wage, the £12.21 rate would instead be £15. Obviously, this is a simple comparison and we don't know what the impact of a £15 NLW would have been, but it's clear that the absence of the normal patterns of real wage growth have had significant impacts.

152 Real wage growth is important in a world of minimum wage targets benchmarked to median earnings. If real wages are growing then even less ambitious minimum wage targets – such as freezing the bite – will still improve living standards for the lowest-paid workers (though the cash gap between the wage floor and median pay may continue to widen). But more broadly, real wage growth is a sign of strength in the labour market.

Figure 4: Left panel: Long-term wage growth, UK, 1975-2025. Right panel: Change in real average full-time earnings, G7, 2007-2024



Source:
Left: LPC estimates using ONS data. Average weekly earnings (AWE) whole economy historic level (MD9M), monthly, not seasonally adjusted, GB, January 1963-December 1999; average weekly earnings (AWE) total pay (KAB9), monthly, seasonally adjusted, GB, January 2000-August 2025; CPI historical index (JFDN), monthly, UK, January1963-December 1988; and CPI index (D7BT), monthly, UK, January 1988-August 2025. LPC analysis of New Earnings Survey (NES) data from Hills (2010), 1975-2008, NES data and Annual Survey of Hours and Earnings (ASHE) data from Giupponi and Machin (2024), 1980-2019; and ASHE data, chainlinked, standard weights, 1997-2025.
Right: OECD Average Annual (Full-time) Wages, national currencies in 2024 prices.

The relationship between productivity and minimum wages is complex

153 It can be argued that higher productivity is necessary to pay for wage floor increases. But despite minimal productivity growth during the period of the first NLW target, there was also minimal employment loss. This may suggest that before the NLW, low-paid workers were paid less than the value of what they produced, so as their wages rose, it still made sense to employ them. However, after nearly a decade of large rises, we don't know if this is still the case.

154 However, there is another dimension to the relationship between productivity and the wage floor. With bite targets, the NLW tracks the median wage. The median wage in turn is linked to average productivity in the economy. So, if there is a divergence in productivity between low-paying firms and the average, this could be problematic if higher average productivity growth drove the bite target higher, but by more than productivity growth in low-paying sectors. The evidence suggests that productivity has become more varied both within and between sectors (De Loecker, Obermeier and Van Reenan, 2024).

155 Causality between productivity and the minimum wage could also flow in the opposite direction. Increases in the minimum wage could help raise productivity, either through encouraging firms to invest in training or technology to ensure that workers produce enough to 'pay for' the wage increases, or through reducing employment in low productivity firms in favour of higher productivity firms. Positive effects of the minimum wage on productivity in Germany are well-documented, although there is a live debate about the mechanism for these (see Dutsch, Ohlert and Baumann, 2025). Divergent productivity effects between Germany and the UK highlight the importance of institutional context – i.e. the holistic policy environment – in determining the impact of minimum wages. For example, German firms already had much higher levels of investment, alongside a strong vocational training system that encourages investment in individual skills.

Policy factors

156 Beyond the state of the economy and labour market, other policy choices will affect and interact with a further NLW target and influence its success.

Further NLW increases require commensurate funding in low-paying publicly-funded sectors

157 The NLW already affects significant numbers of public sector workers – and there is potential for this to grow in the years ahead. This includes jobs within local government and the health and education sectors. Beyond the public sector, there are low-paying sectors which are funded to a significant extent by the public purse. These include social care, childcare and those parts of the leisure sector which are contracted by local government. In each of these, the Government is the main source of funding; that funding has generally been squeezed over the NLW period; and employers in these sectors generally have limited scope to offset a rising minimum wage via price increases.

158 Further NLW increases in these sectors bring risks if they are not matched by proportionate increases in funding. The risks are that these services will be difficult to deliver, whether because they are unable to recruit staff or because they are no longer financially viable.

159 In social care and childcare minimum wage coverage has risen as employers struggle to pay above the NMW/NLW. In step with this, we have seen a rise in recruitment and retention issues and a reduction in employment conditions (including, in parts of social care, a high degree of underpayment).

160 The development of the Fair Pay Agreement in social care offers a chance to resolve these issues. The policy intent behind the establishment of the negotiating body is to address the challenge of

recruitment and retention in the sector. In our discussions with care workers and unions, we hear that this crisis is linked to both the prevalence of low pay, the lack of meaningful pay progression above the minimum wage and the strain which employment conditions place on workers. Without adequate funding, it will be difficult to realise these goals.

161 Early years education (childcare) faces a similar picture of long-term funding pressure, particularly in the context of the recent expansion of parents' entitlement to funded hours. The National Day Nurseries Association (NDNA) noted that most of the extra £1.6 billion of funding promised in the spending review would be spent on funded hours for children aged under 2. This left little room to fund NLW increases or other increases in employment costs such as NICs. Employer bodies told us that constrained funding and higher staff costs were leading businesses to seek cheaper recruitment options, using more young workers and apprentices, with potential risks for the quality of service provided.

162 In both childcare and social care, one significant consequence of funding pressure is a loss or degradation of services for users. The Home Care Association have described to us how government decisions over funding and workforce policies "can significantly improve or significantly worsen conditions for those people drawing on services," with low fees suppressing the growth needed to meet *higher demand. The National Day Nurseries Association have shared their concerns about "less reliable, flexible childcare for parents and less consistent, lower quality early education for children".*

The impact of further policy changes are also hard to predict

163 The impact of any minimum wage increase depends on a host of other Government policy decisions. This includes fiscal policy, tax and National Insurance rates and thresholds, particularly those pertinent to low-paid workers and lower-paying sectors, as well as international trade, competition policy and a wide range of others.

164 There are some major policy changes underway, the impacts of which are hard to predict. We don't know the final details of many of the changes envisaged by the Employment Rights Act or how its measures will interact with the minimum wage. Employers worry that the additional rules and protections will have a negative effect on hiring. Worker representatives' counter that the improved security will boost workers' confidence to move jobs, upskill and bolster demand.

165 Equally, we don't know how the Government's efforts to significantly reduce migration will change things, particularly in the low-paying sectors that rely on migrant workers. Other policy changes such as reform of the welfare system and the apprenticeship structure are also important factors to consider.

Improving the evidence base will give greater confidence in future increases

166 Evidence has always been a critical part of decision-making on the minimum wage. To be confident about future decisions, the Government should be informed by the impacts so far. We have a range of data sources to assess the employment effects. However, there are weaknesses in this

evidence base. The Labour Force Survey is our main source for understanding the employment effects of minimum wage changes. But for several years its sample quality has been below expectations. While the ONS has made several changes to improve response rates,[15] comparisons over time continue to be difficult. This means we don't have robust econometric estimates of the NLW impact post pandemic.

167 The ASHE is a snapshot survey that takes place once a year. This means we only have one data point per year to assess the picture for hourly pay, which is critical for assessing the impact of the hourly minimum wage. While understanding employment effects is important, it has been clear for some time now that employers have primarily been responding in other ways. They have absorbed the cost and accepted lower margins, passed the cost on in higher prices or tried to improve productivity in some way. The evidence base on these effects is more limited.

168 Over the coming years there will be opportunities to improve the evidence base, which will enable a more confident assessment of the impacts of our recommendations. The ONS had planned to introduce a new Transformed Labour Force Survey (TLFS) which should have dealt with some of the issues with the existing data. However, that transition has been delayed as ONS has focused on improving the reliability of the LFS.

169 The ONS should ensure that the TLFS still collects detailed information on hourly pay where available, so that we can use it to evaluate the minimum wage. That requires collecting detailed data on pay, periodicity and hours worked to derive a consistent hourly pay measure to improve upon that produced in the previous LFS. The resulting data should have sufficient sample size to allow disaggregated analysis of the low-paying sectors and groups of workers. We welcome the positive indications we have recently received from ONS in relation to this matter.

170 Key data sources on pay (ASHE, AWE, and RTI) have diverged since the onset of the pandemic (Low Pay Commission, 2022 and 2026). So we welcome the commitment the ONS has made to publish its work to reconcile its data on employment and earnings, and clearly explain why different data sources show different trends (ONS 2025). It should also prioritise producing consistent time series for key labour market outcomes.

171 The Government had also announced its intention to ask employers to report on hours of work as part of its RTI returns (HMRC, 2022 and 2023). The RTI already provides very useful information on both pay and employment, but this change had the potential to describe the impacts on jobs and hours of work for minimum wage workers in almost real time and with far greater accuracy. We were therefore very disappointed when HMRC (2025) announced, in January 2025, that it would no longer go ahead with this change. We recommend that HMRC reconsider the decision and implement this change as soon as possible.

172 We already use the RTI data to assess the impact of minimum wage changes and benefit from several bespoke data cuts provided by HMRC for this purpose. We also work with the PAYE microdata in the HMRC datalab, and welcome HMRC's recent moves to improve access arrangements. However,

[15] As of the third quarter of 2025 achieved sample sizes were similar to pre-pandemic levels (ONS, 2025a).

more timely access to this data would be a significant improvement to our evidence base and we will continue to work with the Department for Business and Trade and HMRC to ensure access to the best available data to inform our decision-making. We would also recommend that HMRC establish a portal to enable access to the RTI data for timely descriptive analysis, similar to the NOMIS portal produced by ONS.

173 We are grateful for the work of the Wage and Employment Dynamics (WED) project in linking detailed pay data (ASHE) to other data sources to analyse the representativeness of the ASHE data (ASHE-BSD) and expand the list of observed characteristics (ASHE-Census 2011-RTI-Self-Assessment data). While welcoming the establishment of the linked employer-employee data (LEED) project, we were disappointed that ONS will close the Integrated Data Service in March 2026 and that this has led to delays in the WED project linking ASHE with the Census 2021 for England and Wales. We recommend the Government and other funders such as ADR UK pursue more projects that link the ASHE data to other relevant information such as DWP's benefits data from the Longitudinal Labour Market Dataset. We would also encourage funders to make resources available for the continued updating of these data sets.

174 In addition, the Government and ONS may be able to link more broadly across datasets, to improve both data collection and access to data for analysts and researchers. For example, there is an opportunity to improve ASHE using administrative data from RTI to pre-fill some of the questionnaire fields – reducing the time spent for employers and potentially enhancing response rates.

175 Finally, better data on firms can improve our understanding of the wider impacts of the NMW/NLW on prices, profits, productivity, investment, and firm exit. Currently, our ability to analyse the wider impacts of the minimum wage is limited by the lack of sufficiently detailed and timely firm-level data. We welcome the ONS's existing efforts to improve firm-level data by introducing the Longitudinal Business Database. This will make it easier to measure the effects of the NLW on firm entry/exit. To fully answer these questions, we need data that links information on prices with financial firm information and pay data. We ask the Government and the ONS to consider how they can improve data in this area.

Conclusion

176 The evidence does not suggest that specific thresholds in economic conditions (e.g. certain levels of GDP growth or employment rates) need to be reached for success. And even if we could identify these thresholds, it would be difficult to predict whether they would be present several years into the future.

177 Therefore, it is not possible to be certain now how well the economy can absorb further NLW increases in the future. Furthermore, we have not been able to fully evaluate the impacts of recent increases in the NLW due to data issues and the confounding impact of the Covid-19 pandemic and other economic shocks.

178 While expectations for long-term economic conditions should drive decision making, current economic conditions will likely shape stakeholder reactions to a further target. When the previous two

targets were announced, labour markets were improving with falling unemployment and rising employment. By contrast unemployment has been rising for several years now, with young people particularly affected.

179 This means that what really matters is the Government's risk appetite. Even so, any target rooted in long-term economic conditions will still need to adapt to short-term economic circumstances along the way.

Chapter 7 – What might result from further increases?

Key points:

- We have constructed a large number of scenarios to show what the potential impacts of various bite levels might be under a range of assumptions.
- Increasing the bite would likely raise coverage, but the extent is uncertain and depends on the bite level aimed for.
- Inflation impacts are likely to remain small
- Depending on the level of the bite, further increases may lead to some employment losses relative to maintaining a constant bite, but the magnitude of these losses is highly uncertain.
- Lowering the NLW eligibility age from 21 to 18 lowers the NLW rate needed to reach any particular bite level, which lowers employment risks for adults over 21. But it results in more employment risk for 18-20 year olds due to the significant increase in their wage floor.
- Further minimum wage increases should improve living standards for low-paid workers, but not all the gains go to the poorest households

Introduction

180 In this chapter we estimate the potential impacts of a very wide range of scenarios for NLW rises. To estimate the outcome of a particular scenario, we need to establish:

i. The NLW-eligible population
ii. the bite level aimed for
iii. the year the bite level is reached
iv. the impact on each worker's wages
v. the responsiveness of employment or prices to those wage changes.

181 On i), current Government policy is to remove the 18-20 Year Old Rate so that everyone aged 18 or over is eligible for the NLW. Because younger workers have lower wages on average, including them in the NLW will lower the median upon which any bite target is based. In short, lowering the NLW age to 18 means smaller increases in the NLW to achieve a given bite. So this change too has a material impact on the potential outcomes. Our 2026 remit says the LPC has full flexibility to determine the pace and timing of this change (Department for Business and Trade, 2026). Because this decision has yet to be made, we have modelled outcomes for an NLW starting at both age 21 and 18.

182 The level of the bite target (ii) is a political choice, so we have set out impacts for all potential bite levels from 65 to 75 per cent to inform this choice. For (iii) we estimate the impacts that would take place between now and 2029 because that is the latest year for which we have reliable wage forecasts.

These forecasts are necessary for calculating the impact on the wage bill. This does not mean that we think that 2029 should be the target year. Instead, it is the latest date for which we can project impacts into the future.

183 We have calculated the impacts on wages between now and 2029 (iv) for each bite level between 65 and 75 per cent. To do this, we estimate how many people would be affected by any NLW increase, and the extent to which they are affected, including via spillover effects. Our method for this is described in Appendix 2. We then combine the impacts on wages with (v) which is what we know about the responsiveness of employment or prices to changes in wages.

184 For the employment impacts this responsiveness (v) is the 'own wage elasticity' (OWE) that we have described in previous chapters. We have drawn on four estimates of the OWE from both the UK and international studies to give a sense of both the unpredictability and the scale of different outcomes.

185 In total, we have constructed 352 different scenarios for employment effects.[16] Our intention is to give a sense of the scale and range of possibilities, not to advocate for a particular course of action. This exercise also shows how difficult the outcomes are to predict. There are also many caveats to these scenarios; they do not take account of the state of the economy for example.

186 This exercise also draws attention to the many potential outcomes which we cannot measure, let alone predict with any accuracy. So, we discuss these outcomes first.

There are potential trade-offs beyond employment and prices that should be considered but are difficult to measure and anticipate

187 Before discussing the potential impacts of further increases in the bite of the NLW on coverage, employment, prices and living standards, there are a range of other potential trade-offs that also need to be considered. The most common response to the NLW from employers affected by it is to absorb the cost and accept lower profit margins. The next most common response is to pass the cost on through prices. The growing share of employers telling us they are responding like this has led us to improve our efforts to understand the NLW's impact on prices and inflation more generally.

188 Other employers seek to become more productive or efficient. Sometimes this is simply about asking staff to work harder, more flexibly or to higher standards. In other words, intensifying work.[17] At other times this is through investment in technology, AI or some other form of automation. Taking this route requires investment, but some employers, particularly smaller employers, say they're reducing investment to pay for the NLW. We also hear from both workers and employers that other changes are made to workers' terms and conditions or reward. For example, changes to breaks, access to food at work, policies on bonuses and other non-pay aspects of reward. The squeezing of differentials can reduce incentives for career progression for workers and create labour shortages in senior roles for employers.

[16] 11 bite levels multiplied by 4 OWEs multiplied by 2 NLW ages of eligibility multiplied by 4 spillover scenarios.

[17] See LPC (2026) for our latest evidence on this.

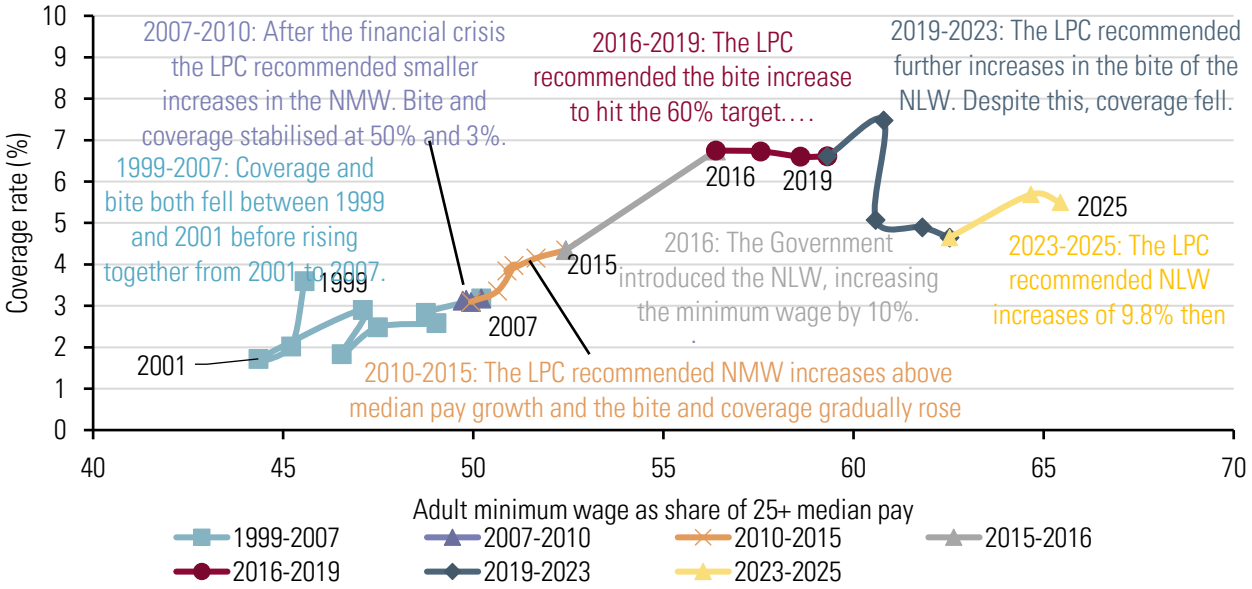
189 As this chapter demonstrates, some of these impacts on prices and employment can be studied in detail. Even though there are issues with the quality of evidence, there are datasets available that let us study the scale and breadth of these impacts. But many of the other employer responses, such as intensification, investment and other aspects of work are much harder to measure, let alone assign causality. This is particularly the case on work intensification or changes to job quality. This measurement gap also makes these impacts harder to predict. Nevertheless, potential trade-offs like these should still be considered when thinking about what should happen to the minimum wage in the future.

Increasing the bite is likely to increase coverage, but the extent is uncertain

190 In this section we start to explore the potential impacts of further increases. We will show a range of possible outcomes that may take place between now and 2029 for each bite level from 65 to 75 per cent for an NLW starting at both age 18 and 21. This year is chosen purely because it is the latest year for which we have the wage forecasts needed to estimate the outcomes. We are not saying that this should be the target year. Our starting point is calculating the impact of these scenarios on wages. To do this we use the historic relationship between the bite and coverage (the share of jobs aid up to 5p above the NLW).

191 Between 1999 and 2016 bite and coverage tended to move together. As the bite of the minimum wage increased, so too did coverage. However, since 2016 this relationship has changed (Figure 5). Following the introduction of the NLW, coverage remained relatively stable, it then fell after the pandemic, despite ongoing increases in the bite. While we might expect further bite increases to push coverage higher, recent experience suggests this is not necessarily the case.

Figure 5: Bite and coverage rate of the adult minimum wage, 25 and over, UK, 1999-2025



Source: LPC analysis of ASHE 1999-2025, low-pay weights, UK, 25 and over population. Excludes first year apprentices from 2013 onwards. Coverage rate and bite are calculated for 25 and over population rather than eligible population. There is increased uncertainty around coverage rate figures in 2020 and 2021 due to pandemic related data issues.

192 To estimate the effect of a future bite level on coverage, we project how minimum wage increases will flow through to the wage distribution. We use a similar method to that in our Post-2024 Report (LPC, 2024b) and details are provided in Appendix 2.

193 The broad approach is as follows: First, we estimate the indirect effects of minimum wage increases on workers' wages, also referred to as spillovers. These spillovers are the additional wage increases that workers paid above the minimum wage get because of increases to the minimum wage. Next, we project workers' future wages using forecasts of future wage growth and our estimates of the direct and indirect effects of minimum wage increases. Lastly, we estimate coverage by calculating how many workers will be paid the minimum wage in 2029.

194 For this analysis we first assume that the eligibility age for the NLW remains at 21 in 2029. Then, later in the chapter we show how the impacts vary assuming 18-20 year olds become eligible in 2029. However, these are indicative scenarios only. Government policy is to lower the NLW age to 18, but our 2026 remit says the Commission has full flexibility to make recommendations to the Government on the pace and ultimate timing of this change.

195 We also assume that spillovers are the same across industries, regions and demographics. More generally these projections should be taken as indicative as they are based on static analysis that does not explicitly account for either macroeconomic conditions or changing dynamics within the UK economy and labour market (for example, we assume that total employment does not change).

196 To inform the Government's decision making we present results for a series of bite levels from 65 to 75 per cent and show a range of possible outcomes based on the magnitude of the spillover effects of the minimum wage. The higher spillovers are, the greater the pay rises going to those workers paid slightly above the minimum wage. Larger pay rises for these workers mean it is more likely that their wage remains above the NLW, so coverage is lower. Smaller spillovers result in smaller pay increases and result in more workers eventually being paid the minimum wage, so coverage is higher.

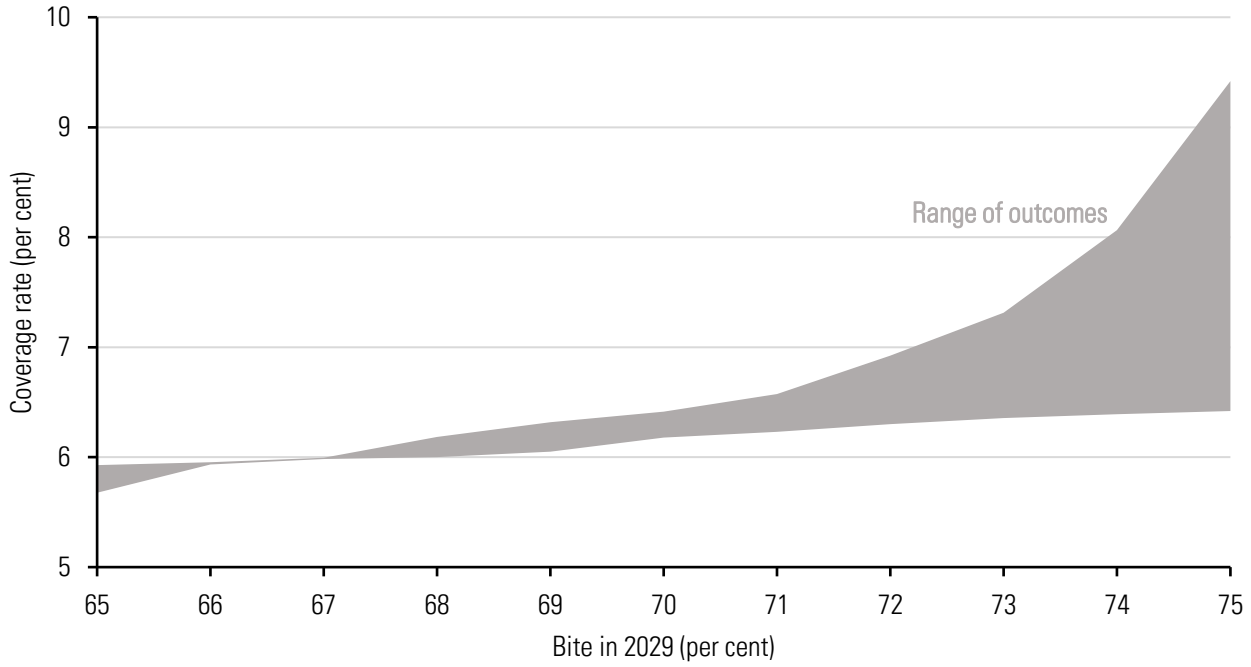
197 We need to choose a year in which to show these impacts. Without this we cannot calculate the size of NLW increases needed or their impacts on coverage. These calculations require forecasts of wages, and the latest available are up to 2029. So each of our scenarios show the impacts that might happen between now and 2029.

198 However, 2029 is chosen purely for illustrative purposes, this is not a statement on what year we think any bite target should be achieved. Instead, it is our attempt to inform the Government on the potential impacts. If the Government is envisioning a longer-term trajectory than 2029, for example a bite between 65 and 75 per cent to be achieved by 2035, then these scenarios help illustrate what might happen a few years along the way to that ambition.

199 Figure 6 shows projected coverage under various bite levels in 2029 for workers aged 21 and over. The projections suggest that small increases in the bite are unlikely to result in significant increases in coverage for workers aged 21 and over, even under the smallest spillover assumption.

200 Even with a more significant increase in the bite to 72 per cent, the projections indicate that coverage would remain in the range of 6-7 per cent for workers aged 21 and over. It is only once the bite approaches 75 per cent of median hourly earnings that the range of coverage outcomes begins to widen. The larger increases in the NLW necessitated by a higher bite mean that under the smallest spillovers scenario, wage increases for workers paid slightly above the NLW are not sufficient for their pay to remain above the NLW.

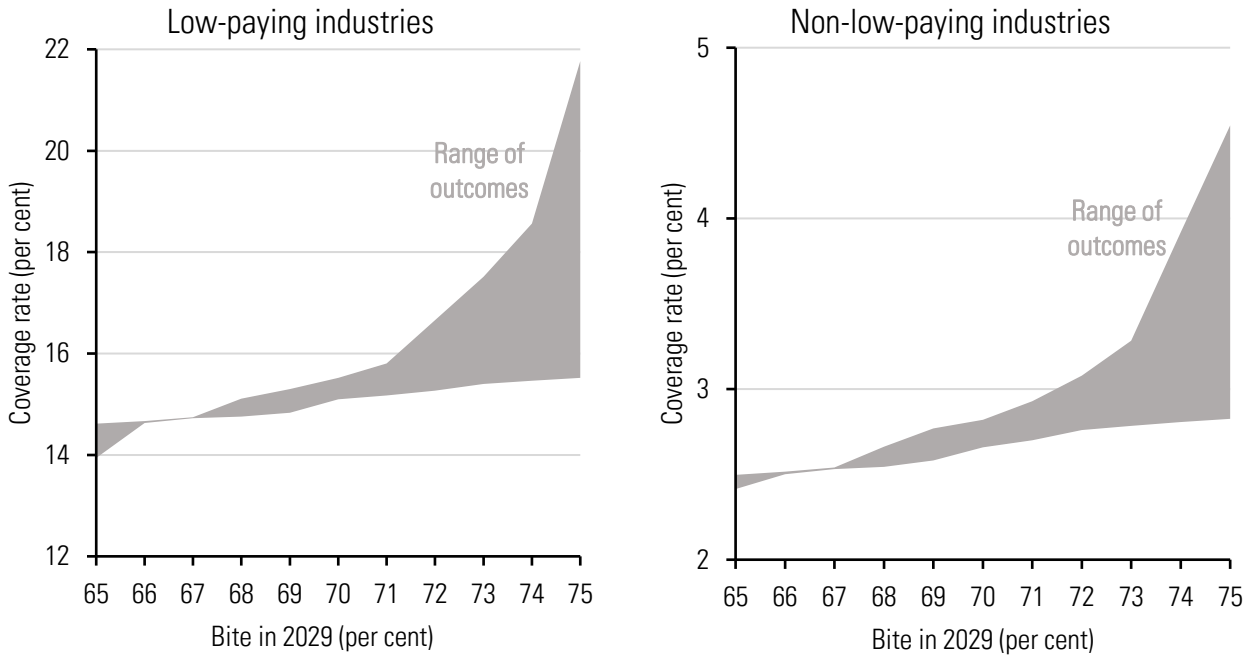
Figure 6: Projected NLW coverage under various bite levels in 2029, 21 and over



Source: LPC analysis of ASHE, 1997-2025.

201 Using this projection method also allows us to evaluate changes in coverage for low-paying and non-low-paying industries. Figure 7 shows once again that the coverage rate is projected to only increase a little for modest increases in the bite across both industry groupings. Coverage increases are particularly small for non-low-paying industries, remaining below 5 per cent even with a bite of 75 per cent of median hourly earnings. This is because there are fewer workers in these industries that are paid just above the minimum wage.

Figure 7: Projected coverage in 2029 under various bite levels in 2029 in low-paying (left panel) and non-low-paying (right panel) industries, 21 and over



Source: LPC analysis of ASHE 1997-2025.

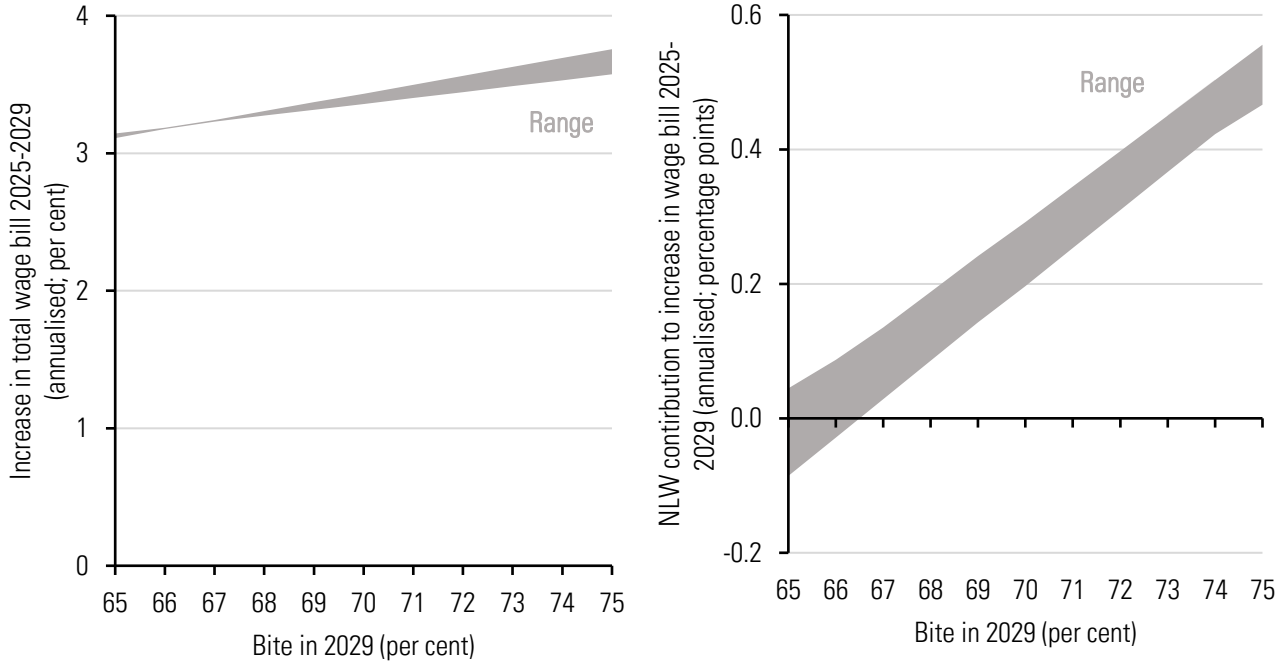
Inflation impacts are likely to remain small

202 Our wage projections also allow us to investigate the impact of future bite levels on the total wage bill and prices, using a similar method to that detailed in Chapter 8 of our 2025 Report (LPC, 2026). Broadly speaking, the greater the direct and indirect impacts of the minimum wage, the greater the increases in the UK-wide wage bill and therefore the impact on prices. These projections rely on the additional assumption that workers' weekly pay increases at the same rate as their hourly pay (see Figure 14, which shows this to have been the case over the life of the NMW and NLW).

203 The left panel of Figure 8 shows how much we project the total wage bill to increase on average each year between 2025 and 2029 under various bite levels. Once again, the range represents differences derived from variation in the size of spillover effects. The right panel shows the contribution of NLW increases to this overall increase in the wage bill, assuming that in the absence of the NLW, workers would receive the same pay growth as the median worker.

204 As we have found looking at historical data, the NLW's contribution to increases in the total wage bill is likely to remain small, because low-paid workers are, by definition, paid less than others and are more likely to work fewer hours. Even with a bite of 75 per cent of median hourly earnings, the NLW would only contribute around 0.5 percentage points of the roughly 3.5 per cent increase in the wage bill each year.

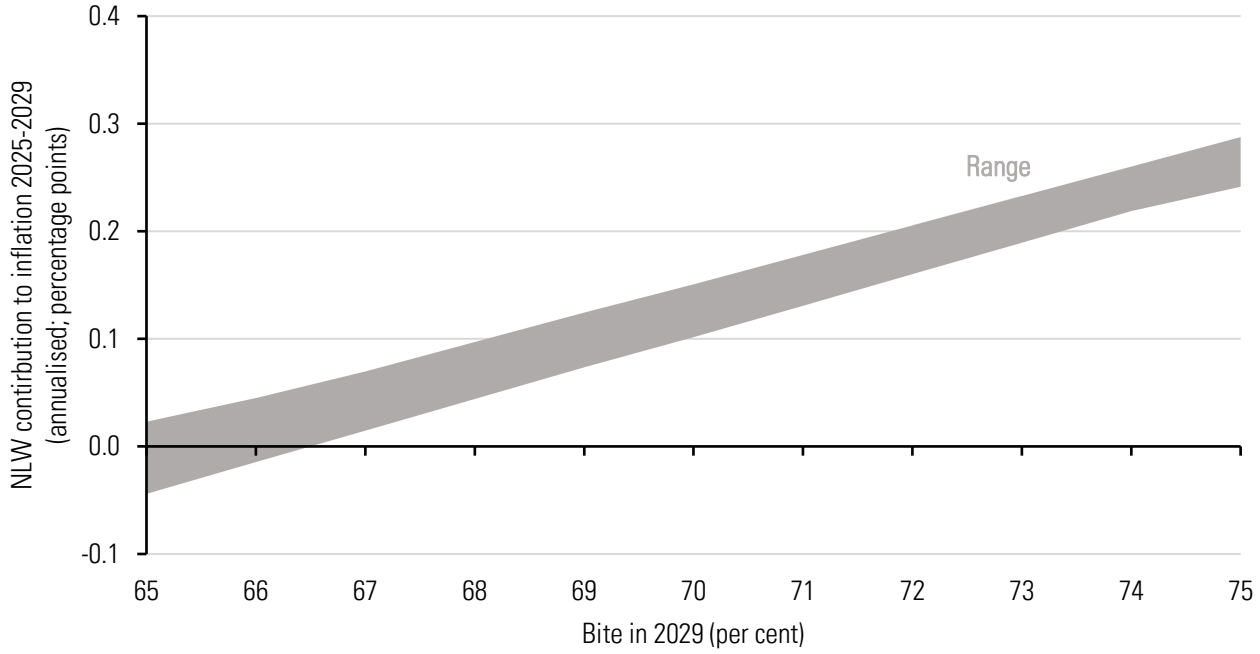
Figure 8: Projected average annual increase in the total wage bill (left panel) and the NLW contribution to the average annual increase in the total wage bill (right panel) under various bite levels, 21 and over



Source: LPC analysis of ASHE 1997-2025.

205 Assuming, as we do in Chapter 8 of our 2025 Report (LPC, 2026), that the increase to the wage bill passes fully through to prices (a maximalist assumption), we also construct projections for the impact of the NLW on inflation. Between April 2025 and April 2029, the Bank of England forecasts average annual inflation of 2.2 per cent. Figure 9 shows that even with a bite of 75 per cent of median hourly earnings we project NLW increases to contribute no more than 0.3 percentage points to that increase (or around 13 per cent of the total increase in prices). This is consistent with our estimates from recent years and external research that the NLW has a very small impact on overall prices.

Figure 9: Projected NLW contribution to the average annual increase in inflation under various bite scenarios, 21 and over



Source: LPC analysis of ASHE 1997-2025.

Further increases in the bite may lead to some employment losses relative to maintaining a constant bite

206 Here we estimate the change in employment that may result from further increases in the NLW's bite. All changes described here are relative to a scenario in which low-paid workers receive median pay growth, rather than representing changes from the current level of employment. In essence, they show how the level of employment would be different compared to a situation where the bite is unchanged (stays at two thirds of median pay).

207 These results make no assumptions about other changes to the economy or labour market. In other words they are 'static' estimates. In reality, as we move into the future the economy will grow and change. It is difficult to forecast how that will happen, and how changes to the minimum wage will interact with those dynamics.

208 For these calculations, we use a range of estimates of own-wage elasticity (OWE) discussed in Chapter 5, and the impacts on the wage distribution generated from our spillovers projections above. Combining these, we generate estimates of the employment effect on the affected population, which we take as the bottom 35 percentiles of the wage distribution.[18]

209 Figure 10 shows how projected employment changes with variation in the bite level under different own-wage elasticity estimates. Each coloured band represents the projections generated when

[18] We use the bottom 35 percentiles of the wage distribution because over the period the minimum wage has been in place these are the workers that have benefited from minimum wage spillovers – that is, they have received larger wage gains than workers around the median of the distribution. Above the 35th percentile wage gains have been similar to median hourly pay growth.

using a different own-wage elasticity estimate. The width of the band represents the range of possible outcomes for that own-wage elasticity depending on the magnitude of the spillover effects. It does not capture the additional uncertainty around the OWE estimates themselves, as we already demonstrate effects across a range of OWEs.

210 Larger spillover effects result in higher wages, making it more expensive for businesses to hire workers, thereby making employment losses more likely. The chart makes clear that more variation in possible outcomes is generated from variation in the own-wage elasticity estimate than variation in the strength of spillovers.

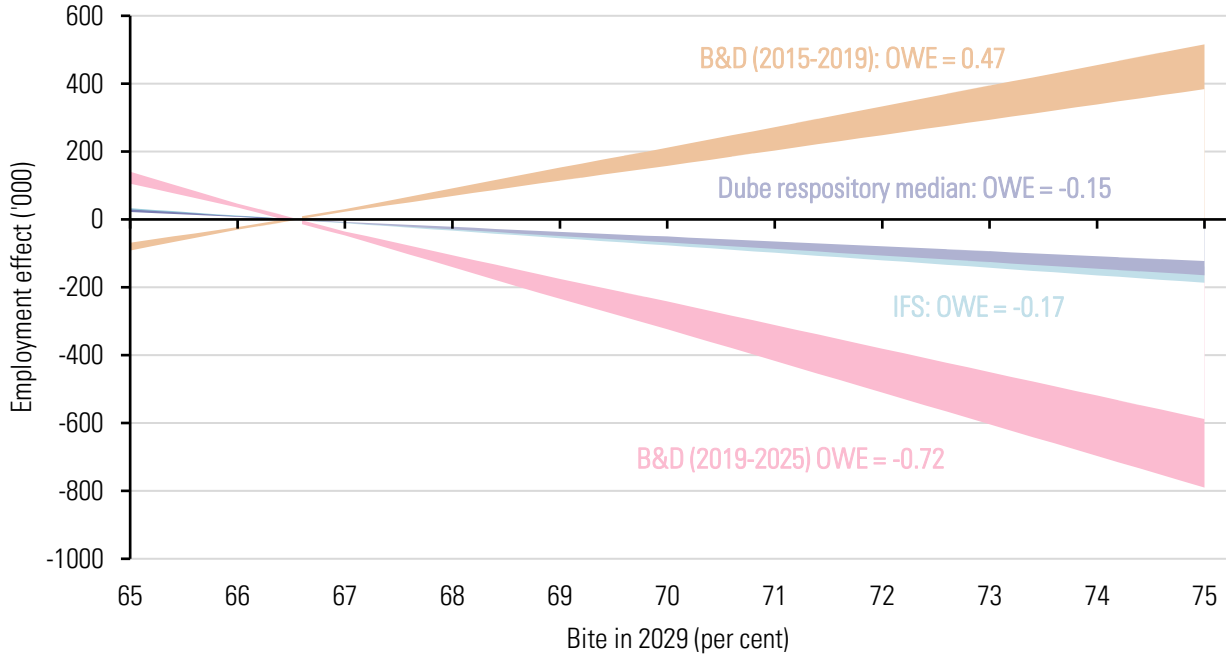
211 Using what we regard as the best estimates of the OWE (the IFS central estimate, which is -0.17, and the median from the Dube repository, which is -0.15) employment losses would be relatively modest for small increases in the bite. We place weight on the IFS central estimate because it evaluated the NLW over the 2015-2019 period using well-adapted econometric methods and produced results that were robust to different specifications.

212 The projections made by the OBR when each NLW target was announced provide a useful benchmark against which we can compare the projected losses shown in Figure 10. In 2015, when the NLW was introduced, with a target to reach 60 per cent of median hourly earnings for workers aged 25 and over, the OBR estimated (assuming an OWE of -0.4) that the NLW would increase unemployment by 60,000 (with a range of 20,000-110,000) by 2020 relative to a model in which the target was not introduced. In 2020, the OBR revised down its assumption used for the OWE to -0.3 because the introduction of the NLW had had little impact on employment. The OBR projected that increasing the NLW's bite from 60 per cent to two thirds of median earnings would increase unemployment by 50,000, relative to a scenario where the bite was kept constant.

213 While the estimates based on the IFS and Dube OWEs suggest modest employment losses, there is a risk that employment losses could be greater. Since the pandemic we have not been able to robustly estimate the employment effects of increasing the bite from 60 per cent to two thirds of median hourly pay. In part this is due to the confounding effects of the pandemic. Many sectors hit hard by the pandemic were low-paying, consumer-facing services such as hospitality and leisure, making it difficult to separate out the impact of the minimum wage. The deterioration in the quality of the Labour Force Survey data over this period has also made it more difficult to produce robust results.

214 Estimates we do have for this period point to larger OWEs. Our most recent update of Butcher and Dickens (2023) for the period 2019-2025 finds an OWE of -0.72. On balance we think this larger OWE is driven by the confounding effects of the pandemic rather than the NLW. Nevertheless, using this OWE implies far larger employment losses. In contrast, the Butcher and Dickens (2023) estimate for the 2015-2019 period found a positive OWE of 0.47. Using this OWE estimate results in increases in employment.

Figure 10: Estimated employment effect under various bite levels and own-wage-elasticity estimates, 21 and over



Source: LPC analysis of ASHE, 1997-2025.

A lower eligibility age would transfer risk from older workers to younger workers

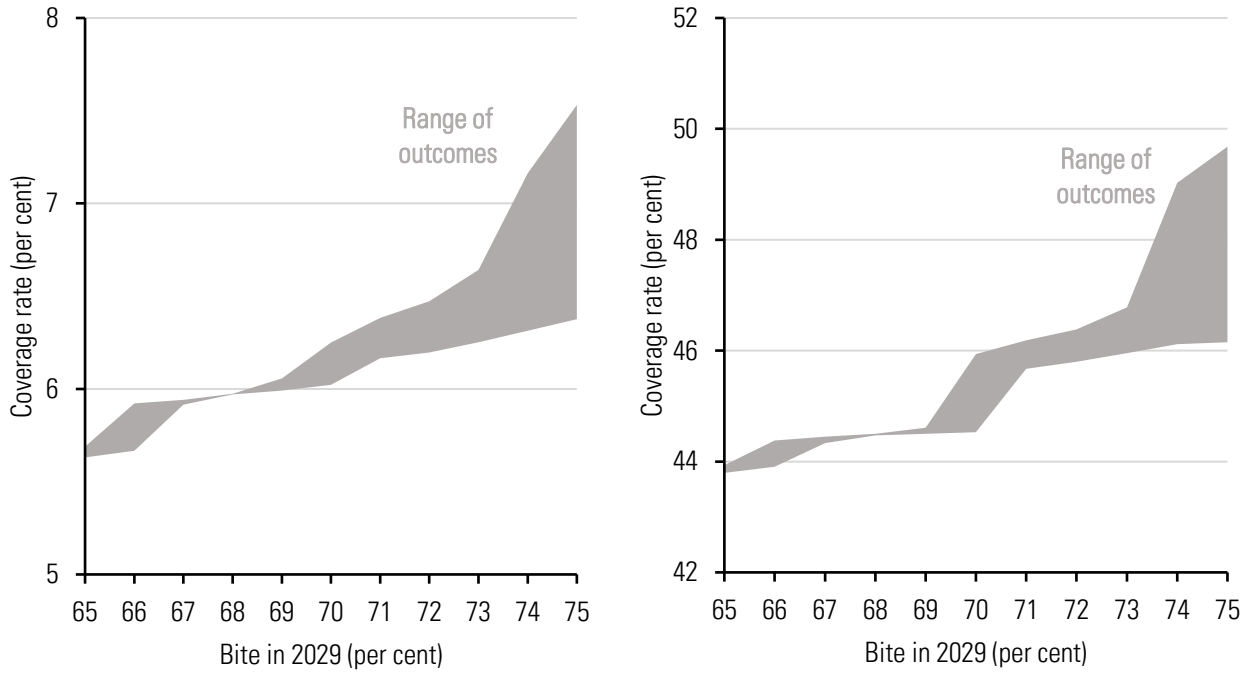
215 The analysis presented so far assumes that eligibility for the NLW would remain at 21 and over by 2029. If, instead, we assume that 18-20 year olds are eligible for the NLW, the results are different. Because 18-20 year olds are paid less than those aged 21 and over, including them lowers the median and therefore the NLW rate required to reach any particular 'bite' level. So, while the current rate of the NLW targets two thirds of median earnings for those aged 21 and over, the same NLW would have a bite of 67.3 per cent for those 18 and over.

216 Smaller increases in the NLW to hit any particular bite level for the 18 and over population result in smaller employment, coverage and price impacts. However, because the minimum wage for the 18-20 population increases significantly, these workers experience more substantial impacts. In other words, lowering the eligibility age of the NLW lessens the risk of adverse impacts on the 21 and over population, but increases the risks to the 18-20 population. In Table 1 below we set out these differences more clearly.

217 Figure 11 shows coverage projections under an 18 and over NLW for the 21 and over population in the left panel and the 18-20 population in the right panel. The left panel shows that the increases in coverage for the 21 and over population are noticeably smaller than in the 21 and over NLW scenario presented earlier in Figure 6. The right panel shows that coverage for 18-20 year olds is much higher. Currently around 45 per cent of 18–20 year olds are paid at or below the NLW. The projections suggest that modest increases in the bite would not alter that share significantly. However, as the bite moves

higher, the increases in the coverage rate are larger than for workers aged 21 and over, and the range of possible outcomes is wider.

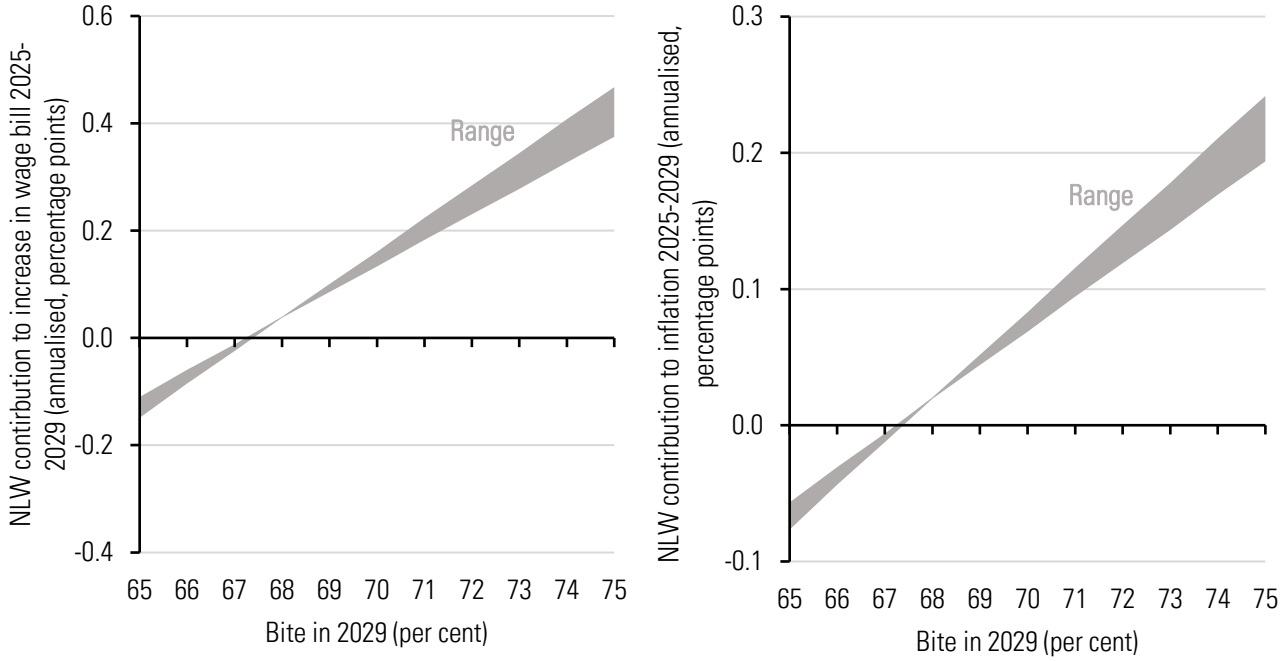
Figure 11: Projected coverage for 18 and over NLW under various bite levels in 2029, 21 and over (left panel) and 18-20 year olds (right panel)



Source: LPC analysis of ASHE 1997-2025.

218 Because of the smaller wage increases for the 21 and over population, the inflation impacts of the NLW are also smaller for an 18 and over NLW. Figure 12 shows that the NLW will only contribute to increases in the total wage bill and inflation if the bite is greater than 68 per cent of median hourly earnings (in October 2025 the NLW was estimated to be at 67.3 per cent of median hourly earnings for workers aged 18 and over).

Figure 12: Projected NLW contribution to the average annual increase in the total wage bill (left panel) and inflation (right panel) under various bite levels, 18 and over

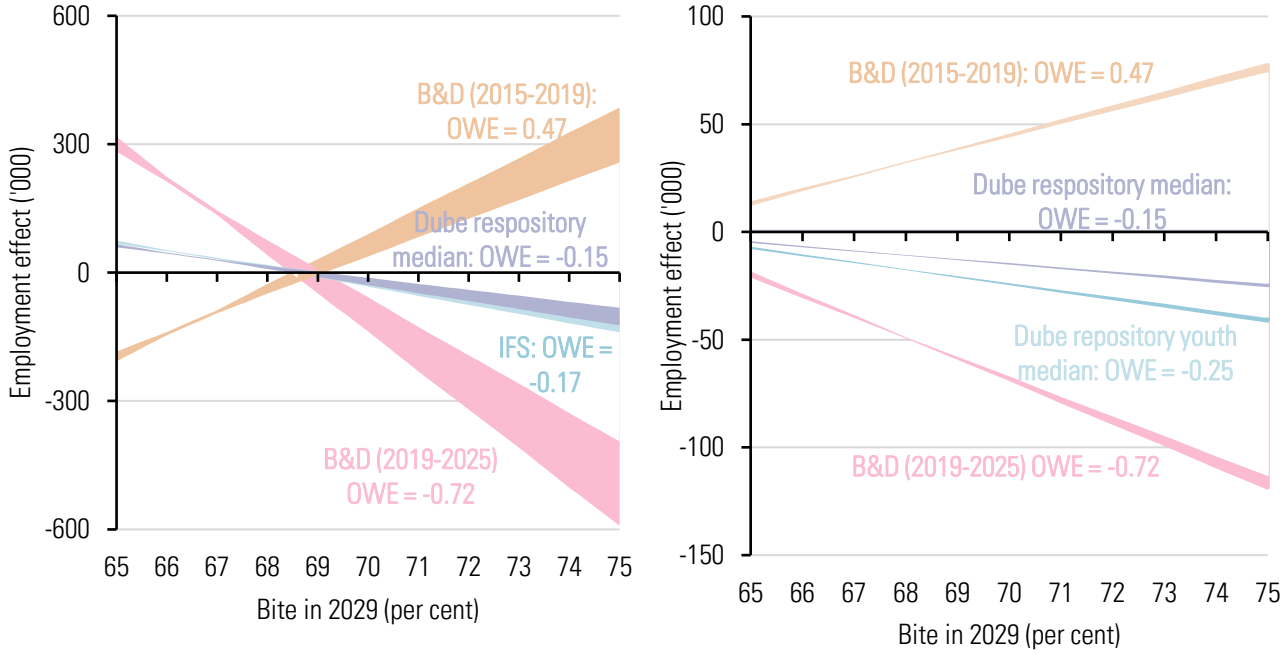


Source: LPC analysis of ASHE 1997-2025.

219 As with coverage, the employment effects on the 21 and over population are more modest under an NLW that applies to workers aged 18 and over.

220 The right panel of Figure 13 shows estimated employment losses for workers aged 18-20 years old. We do not have good OWE estimates specific to 18–20 year olds in the UK, so there is greater uncertainty around employment effects for these workers. Most of the OWE estimates for teens in the Dube repository come from the United States, but at -0.25, the median OWE estimate for young people is larger in magnitude than for adults. However, even if policy towards the bite were to remain unchanged, with a bite reference point of two thirds of median hourly earnings, we project employment losses of around 10,000-13,000 for 18-20 year olds due to the increases required to align their wage floor with the adult rate (using the youth median OWE from the Dube repository).

Figure 13: Estimated employment effect under various bite level and own-wage-elasticity estimates, 18 and over NLW, 21 and over (left panel) and 18-20 year olds (right panel)



Source: LPC analysis of ASHE, 1997-2025.

221 Table 1 compares the employment impacts under different assumptions about the NLW age of eligibility, the bite level and the OWE. If the eligibility age remains at 21, the employment impacts are larger than those we see if the NLW age falls to 18. This is because including the 18-20 year olds lowers the median wage and so the NLW needed to hit any particular bite level. A lower NLW means less risk and smaller employment impacts. However, if the NLW age is lowered to 18 there is greater risk for this age group. So the lower employment impacts for those aged 21 and over are partly offset by negative impacts for 18-20 year olds.

222 The estimates in this table are for illustrative purposes, with uncertainty around each of the estimates. The aim here is to make the point that lowering the NLW age from 21 to 18 lowers the employment risk for those aged 21 above, but increases it for 18-20 year olds.

Table 1: Summary of estimated employment changes under various bite targets in 2029

NLW eligibility	21 and over		18 and over		18 and over		18 and over	
Age group	21 and over		21 and over		18-20		18-20	
OWE	-0.15		-0.15		-0.15		-0.25	
Bite (per cent)	*Weakest spillovers*	*Strongest spillovers*	*Weakest spillovers*	*Strongest spillovers*	*Weakest spillovers*	*Strongest spillovers*	*Weakest spillovers*	*Strongest spillovers*
65	29,000	22,000	66,000	59,000	-4,000	-4,000	-6,000	-7,000
66	10,000	7,000	47,000	44,000	-6,000	-6,000	-10,000	-10,000
67	-7,000	-10,000	30,000	28,000	-8,000	-8,000	-13,000	-13,000
68	-22,000	-29,000	16,000	9,000	-10,000	-10,000	-17,000	-17,000
69	-37,000	-49,000	2,000	-10,000	-12,000	-12,000	-20,000	-20,000
70	-50,000	-67,000	-12,000	-29,000	-14,000	-14,000	-23,000	-24,000
71	-65,000	-87,000	-26,000	-48,000	-16,000	-16,000	-26,000	-27,000
72	-79,000	-106,000	-40,000	-67,000	-18,000	-18,000	-30,000	-31,000
73	-94,000	-126,000	-54,000	-85,000	-20,000	-20,000	-33,000	-34,000
74	-108,000	-145,000	-68,000	-105,000	-22,000	-23,000	-36,000	-38,000
75	-123,000	-165,000	-82,000	-123,000	-24,000	-25,000	-39,000	-41,000

Source: LPC analysis of ASHE, 1997-2025.

Further minimum wage increases should improve living standards for low-paid workers, but not all the gains go to the poorest households

223 Chapter 1 of this report highlighted the real wage and income gains households with an NLW worker have experienced since the introduction of bite targets. Figure 14 shows that, since the introduction of the minimum wage, real weekly pay has increased by over 85 per cent for minimum wage workers. We expect further increases in the bite would continue to outpace inflation and that this would feed through into real increases in household income.[19]

224 Income gains from the NLW have benefitted the many minimum wage workers in low-income households, who often rely heavily on their minimum wage income. Nevertheless, the bulk of the cash gains from minimum wage increases go to middle-income households, where minimum wage workers

[19] The net impact on household income will also depend on any changes to employment or hours worked.

are frequently second earners supplementing others' higher wages. This means that while the UK minimum wage can support living standards increases for a range of working families, its impact on measures of low living standards will be muted.

225 A key measure of low living standards is the poverty rate (sometimes referred to as the 'low income rate'). Poverty is more concentrated among households with no workers: half of all working-age households in poverty have no one in work. Of households in in-work poverty, a minority (just under a third) have an NLW worker.[20]

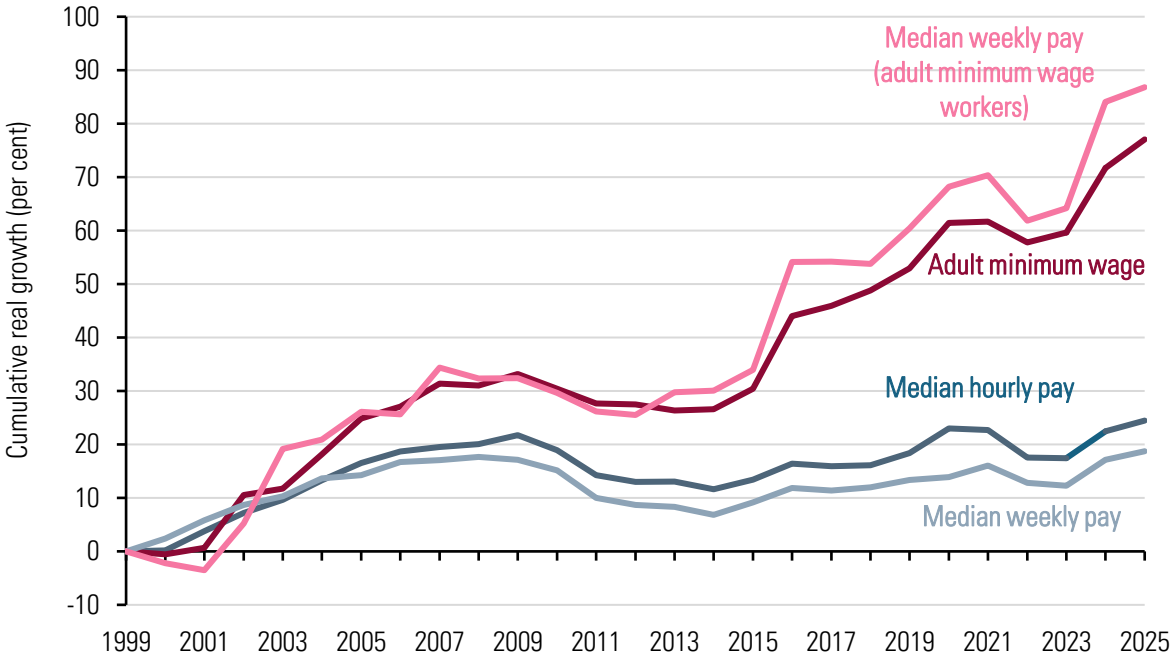
226 This explains why modelling we commissioned this year (Reed, 2026) suggests that even very large increases in the minimum wage would have a limited impact on headline poverty measures. Figure 15 shows the modelled impact on absolute poverty.[21] Even an NLW increase of 20 per cent only reduces child poverty by 0.4 percentage points and working-age poverty by 0.3 percentage points. Modelled impacts on income inequality are similarly small: a 20 per cent increase in the NLW leads to a 0.3 percentage point fall in the household-level Gini coefficient (with a fall indicating a decrease in inequality).[22]

[20] These estimates use data from the Family Resources Survey (FRS), financial year ending 2024, which gives significantly higher NLW coverage than ASHE, our preferred source for hourly pay. They should therefore be treated as upper estimates – the share of households in in-work poverty with NLW workers may be lower than this.

[21] Poverty is commonly measured in relative terms, by comparing to average (median) household income. The scale of impact on relative measures is similar, although this is more sensitive to assumptions about average wage growth. Minimum wage increases can also increase relative poverty. This seems counterintuitive but is due to the concentration of minimum wage workers around the middle of the household income distribution: when the minimum wage goes up, household income goes up for these families, increasing the threshold against which poverty is measured.

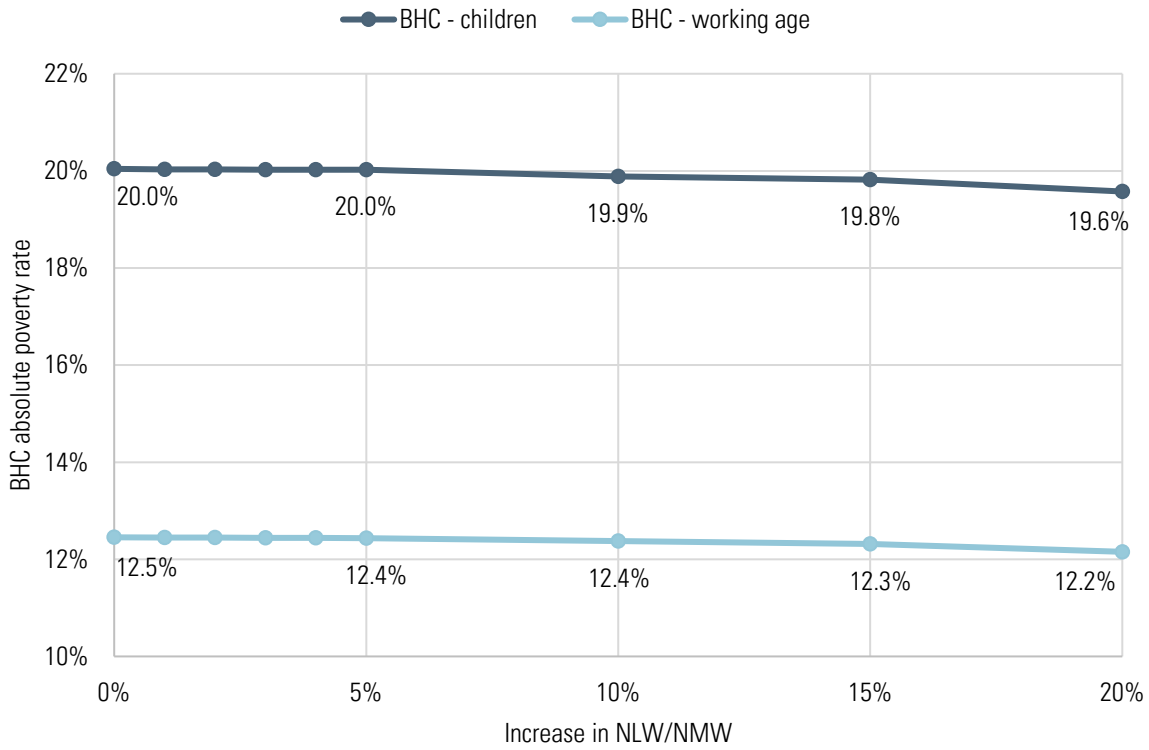
[22] The Gini coefficient is a statistic measuring the overall degree of inequality, particularly between incomes. It is measured on a scale from 0 per cent to 100 per cent (or 0 to 1). In this case 0 per cent inequality would indicate that everyone had exactly the same income and 100 per cent inequality would indicate that one household had all of the income (and everyone else had no income). Reed (2026) calculated the overall Gini coefficient for UK household income before housing costs as 35 per cent.

Figure 14: Cumulative real growth in hourly and weekly pay for workers aged 21 and over, UK, 1999-2025



Source: LPC analysis of ASHE 1997-2025. Median weekly pay calculated on all those aged 21 and over (excluding apprentices).

Figure 15: Modelled impacts of minimum wage increases on absolute poverty



Source: Landman Economics analysis of the Family Resources survey, 2022-2024. This modelling reflects the direct effects of the given percentage increase in both the NLW and youth minimum wage rates in April 2026, not accounting for spillovers. The same (nominal) increase applied gradually over a number of years would have less impact as its real value would be eroded. Including spillovers would increase the impact slightly, but direct effects already capture most of the impact on the lowest-income households.

227 This finding is not unexpected given what we have seen over the history of the NLW. Since 2016, the real value of the NLW has increased by 25 per cent, while absolute poverty for working families has remained stubbornly flat and relative poverty has increased. But there was also a decline in benefit income over much of this period, which will have offset some of the gains. This highlights again the importance of treating the NLW as one policy lever among many in order to achieve the desired policy aim.

Conclusion

228 The projections presented here suggest that the impacts on coverage, employment, and prices of small increases to the bite target would be quite modest, and within the range of outcomes previously considered acceptable. However, the higher the bite is pushed the more uncertain the outcomes are, and the higher the chance of downside risks.

229 While these projections are indicative, they are based on static analysis that does not explicitly account for either macroeconomic conditions or changing dynamics within the UK economy and labour market. The risks around employment are particularly uncertain given the lack of robust evidence about the employment effects of the NLW since the pandemic.

230 If there is an NLW target tied to the median wages of a particular population, then changing the NLW age of eligibility will have an impact on the employment risks for the workers affected. Aiming for a bite target for the 18 and over population rather than the 21and over population lowers the risk of employment impacts. This is because the 18 and over population has a lower median wage and therefore needs a lower NLW rate to hit any target. However, lower risks for the 21 and over population are partly outweighed by greater risk for 18-20 year olds as their wage floor rises by more than it otherwise would do.

Chapter 8 – Conclusion

231 The Government has asked us to "gather evidence and publish [our] findings on what criteria would need to be met in order for the baseline target of the National Living Wage rate to increase beyond the current two-thirds of UK median earnings level within this Parliament.

232 The decision on whether to have a further NLW target is a political choice. We think that targets and principle-based remits for the NLW are the only models that work in practice, but they both have different pros and cons. Targets are better if the Government wants ambition and a path to plan against. Qualitative remits are more responsive to economic conditions. Targets and qualitative approaches can be combined, for example two-thirds of median earnings could be treated as a floor or benchmark, or a further target could be set but without a fixed end date. Both of these would allow more flexibility to respond to economic circumstances than targets alone, but would give the Government scope to set the direction of travel it wants.

233 The evidence does not suggest specific thresholds in economic conditions (e.g. certain levels of GDP growth or employment rates) need to be reached for successful minimum wage policy. And even if we could identify these thresholds, it would be difficult to predict whether they would be present several years into the future.

234 Therefore it is not possible to be certain now how well the economy can absorb further NLW increases in the future. Furthermore, we have not been able to fully evaluate the impacts of recent increases in the NLW due to data issues and the confounding impact of the Covid-19 pandemic and other economic shocks.

235 Nevertheless, we have used the existing evidence base to set out the potential impacts of further rises. Broadly speaking, and depending on the ambition of any future rises, we expect the outcomes to be broadly similar to those seen so far. This means that the impacts on coverage, employment, and prices of small increases to the bite would be quite modest, and in the range of outcomes previously considered acceptable. However, the higher the bite is pushed the more uncertain the outcomes are, and the higher the chance of downside risks. Though we would also expect further rises to continue raising real pay for low-paid workers, albeit with muted impacts on overall poverty and household income.

236 However, there are a couple of important caveats. Future impacts are difficult to predict, past results are not guaranteed to be repeated, so we have also modelled scenarios with larger negative impacts. Furthermore, there are potential unintended consequences, such as lower job quality and work intensification which are difficult to measure today and so even more difficult to predict.

237 The difficulty in predicting both the economic and policy environment in several years' time makes it difficult to be confident about what should happen to the minimum wage in the future. This means that what really matters is the Government's risk appetite. Even so, any target rooted in long-term economic conditions will still need to adapt to short-term economic circumstances along the way.

238 Regardless of what decision the Government takes on the minimum wage's next step, the LPC's view is that the following principles should continue to apply.

- Responsiveness to economic conditions – when the economy is booming the lowest-paid should not be left behind. Likewise, when the economy is struggling we should be mindful of the risks. Recommendations on what to do in these circumstances should be based on evidence and the voice of workers and employers.
- Social partnership and independence – an agreed view between employer and worker representatives assures credibility for the Government's decisions and the minimum wage itself.
- Maintain the level playing field – Employers should face the same rules with as few exceptions as possible. This maintains the 'level playing field', a key principle for employer buy-in.
- Easily operated and enforced – Just having an NMW doesn't prevent exploitation or hardship, it needs to be enforced. Any minimum wage model needs to be simple enough for both workers and employers to understand their rights and responsibilities, and for the Government to enforce and communicate.
- Consistency – so that workers and employers alike know what to expect and can plan accordingly. The Government should set out the LPC's remit approach and only make changes with sufficient notice.

Appendix 1: How to interpret the Own-Wage Elasticity (OWE)

239 An OWE of -0.16 would mean that for every 1 per cent increase in the average wage of the workers caused by the NMW leads to employment falling by 0.16 per cent.

240 Importantly, the increase in the average wage we're discussing here is not the total increase in the minimum wage. Instead, it is the extra wage growth that low-paid workers get because of the NMW/NLW (over and above what they would otherwise get). We often refer to this as the "earnings effect". For example, if the NMW goes up 10 per cent, workers affected get 10 per cent more pay, but if everyone else gets 8 per cent more pay, then the earnings effect is the 2 percentage point difference between 10 and 8 per cent.

241 If the NMW goes up 10 per cent, NMW workers' average pay goes up 10 per cent, but if everyone else's pay goes up by 10 per cent too (perhaps because of a tight labour market), then there is no "earnings effect". The NMW has not pushed up low-paid workers' pay relative to other workers.

What's a big OWE?

242 An OWE of -1 would mean that all of the growth in wages for minimum wage workers is entirely compensated for by the loss in employment/hours for the workers affected. In his work Arin Dube classifies an OWE of less than -0.4 as small, between -0.4 and -0.8 as moderate, and above -0.8 as large (as this would mean 80 per cent or more of the gains in average wages are lost to employment effects).

How to calculate the OWE

243 We divide the elasticity of employment with respect to the minimum wage (ϵE) by the elasticity of the group's average wage with respect to the minimum wage (ϵW). Phrased differently, this means we divide the employment effect (the difference in employment for low-paid workers attributable to the NMW) by the wage effect (the extra wage attributable to the NMW). The employment effect is often referred to as the employment elasticity.

$$\text{OWE} = \frac{\left(\frac{\%\Delta\text{Employment}}{\%\Delta\text{MinimumWage}}\right)}{\left(\frac{\%\Delta\text{Average Wage}}{\%\Delta\text{MinimumWage}}\right)} = \frac{\epsilon^E}{\epsilon^W}.$$

Why use the OWE?

244 What's wrong with the elasticity of employment to the NMW? i.e. the top half of the equation above?

245 The standard employment elasticity of the NMW (the top half of equation) is not useful for comparing across studies where the NMW's impact varies. For example, some workers have high coverage (restaurants, the young etc), and we may find high employment elasticities for them. But these high elasticities may be because coverage in the group is high. The OWE elasticity is better because it takes account of this via the overall impact on the wage bill for the affected group. It scales the employment effect to the wage effect. Standard employment elasticities can't be used to estimate what the future impacts of further increases might be. This is because the bite/coverage of the workers in the study may be different to those affected by the future increase. So, you can't extrapolate from studies of restaurants or teens to the whole population.

246 Some studies don't even show an earnings effect, without which it is not possible to conclude the NMW has caused an employment effect. (If NMW workers average wages don't rise following a NMW rise, how can it cause employment loss?)

247 While we consider the OWE the best method to use to measure employment effects, it can still only reflect average effects in a given context. It only captures, e.g. industry-specific effects, to the extent that a study was designed with this in mind. Effects of the minimum wage may also vary depending on the context (including the level of the minimum wage itself).

Appendix 2: Details of analytical methods

Estimating future coverage

248 To estimate coverage under a future bite target we do the following: First, we estimate the indirect effects (or spillovers) of minimum wage increases on workers' wages. Next, we project workers' future wages using forecasts of future wage growth and our estimates of the direct and indirect effects of minimum wage increases. Lastly, we estimate coverage by calculating how many workers are paid the minimum wage in the target year. The rest of this section goes through this process in more detail.

249 We first estimate historical minimum wage spillovers – that is, how much the NLW has increased wages for workers just above the minimum wage. To do this we need to assume what wage growth would have been in the absence of the NLW. We assume that pay growth at the bottom of the pay distribution would have been equal to growth in median pay.

250 The blue dots in the left panel of Figure 16 show our estimates of spillovers for the period between 2015 and 2025 – these represent the additional wage growth low-paid workers received (above median pay growth), which we attribute to increases in the NLW. The y-axis in Figure 16 shows the spillover share, which represents how much of an increase a worker gets relative to a worker on the NMW/NLW. A spillover share of 100 per cent means that person received the same percentage increase to their wage as the percentage increase in the minimum wage, whereas a spillover share of 0 per cent means that person received the same percentage increase as the median worker. The x-axis shows the distance from the minimum wage in 2015 – historically, the higher the wage, the smaller the spillover effect.

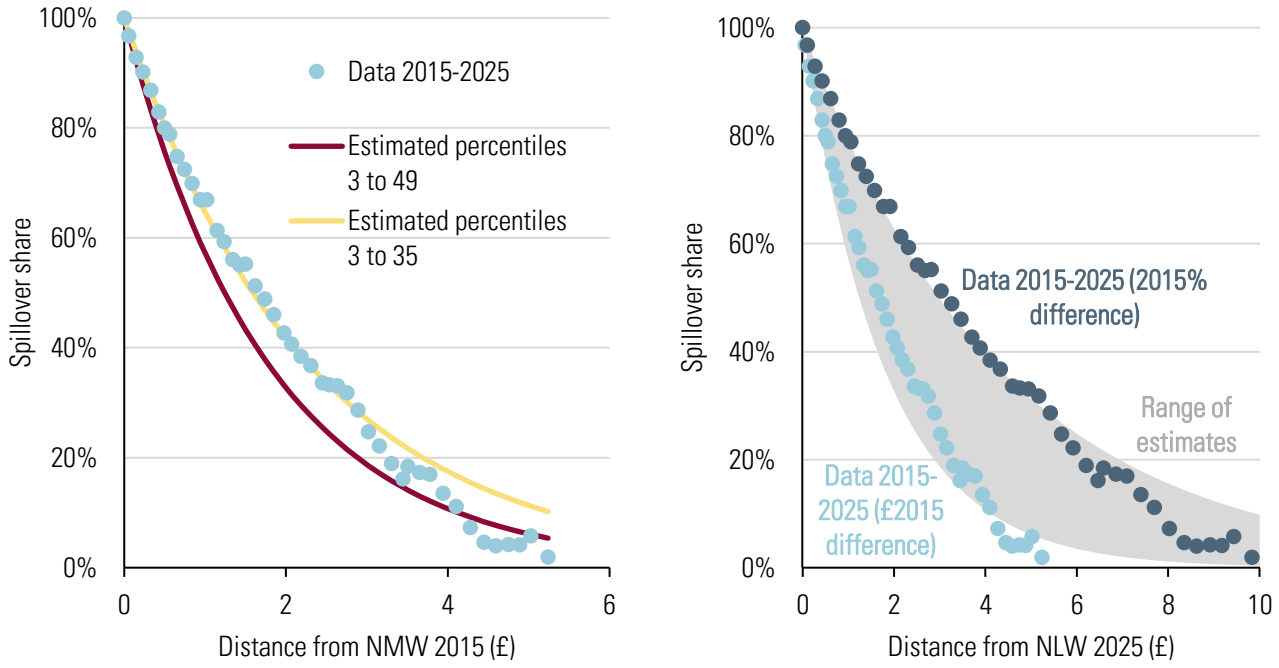
251 We then fit an exponential curve to our estimates of historic spillovers to approximate this relationship. We can then use this to estimate the spillover effects in the future. We fit the relationship using the data points from, in one instance, the bottom 35 percentiles (yellow line in the left panel of Figure 16) and, in another instance, the bottom 49 percentiles (red line in the left panel of Figure 16). We usually assume NLW spillovers only affect the bottom 35 percentiles of the wage distribution, but for completeness, in this work we also consider spillovers impacting the whole bottom half of the distribution.

252 To project forward from 2025 we model two ways of measuring distance from the minimum wage – one based on the pounds and pence difference between a worker's current wage and the NLW, and the other based on the percentage difference between their wage and the NLW (right panel of Figure 16). The light blue dots in the right panel of Figure 16 are the same as the light blue dots in the left panel of Figure 16. If a worker's wage was around £2 above the NMW in 2015 their spillover share was around 40 per cent. Using the pounds and pence difference means that a worker with pay £2 above the NLW in 2025 would also have a spillover share of 40 per cent. The dark blue dots present the data based on the percentage difference. In percentage terms, £2 above the minimum wage in 2015 is equivalent to £3.76 above the minimum wage in 2025. So a worker with a wage that was £3.76 above

the NLW in 2025 would have a spillover share of around 40 per cent. As can be seen in the chart, using the pounds and pence difference results in smaller projected spillovers. We think of these options as representing upper and lower bounds to how spillovers might operate over time – under the pounds and pence based projection, we assume spillovers impact wages up to £17.45 per hour, whereas under the percentage based projection, we assume spillovers affect wages further up the distribution (up to £22.05 per hour). Using our fitted curves we are then able to construct a range of spillover estimates which we use to generate our projections (i.e. grey range in the right panel of Figure 16).

253 We apply these spillover estimates to the wages of every worker in ASHE. That is, to generate their wage in 2029 we grow their 2025 wage by our estimate of median wage growth over that period plus their spillover share. As we do when constructing the NLW path, we calculate our projection of median pay growth as the median of the HMT panel, the BoE and the OBR. If a worker's projected pay falls below the projected NLW in 2029 we give them the NLW. Using their projected 2029 wage and the projected NLW in 2029 we are then able to calculate coverage as we ordinarily do. We repeat this process for each bite target between 65 and 75 per cent of median hourly earnings.

Figure 16: Estimated historical (left panel) and projected (right panel) spillovers, NLW population, 2015-2025



Source: LPC analysis of ASHE 2015-2025.

Estimating wage bill and inflation impacts

254 The spillover estimates we generate for the coverage analysis also allow us to estimate the NLW's contribution to the wage bill and inflation in a similar way to that described in Chapter 8 of our 2025 Report (LPC, 2026). Note that these spillover estimates assume that workers would have received median pay growth in the absence of increases to the NLW. This is slightly different to the analysis in Chapter 8 of our 2025 Report (LPC, 2026), where we assume that workers would have received the

average pay growth of those in the 36th-80th percentiles. We make this change because we do not have forecasts of wage growth for different points on the wage distribution. For this analysis we also need to assume that weekly pay grows at the same rate as hourly pay.

255 To calculate the share of the wage that is potentially affected by the NLW we multiply the wage growth received by workers in the bottom 35 percentiles of the wage distribution by their share of the total wage bill. Because low-paid workers have, by definition, lower wages than other workers, and are more likely to work part-time, their share of the wage bill is lower than their population share (around a fifth of the economy-wide wage bill). The growth they receive is a smaller portion of the total wage bill (varying between around 0.5-1.2 per cent of the total wage bill per year depending on the bite and spillover assumptions).

256 We then calculate how much of this wage increase is due to the increase in the NLW. We use the spillover estimates (i.e. the pay increase they are projected to receive above median pay growth) to calculate this share.

257 To then translate the wage bill impacts into price impacts, we account for foreign products and non-labour costs. Non-labour costs make up a little over 30 per cent of output, and imported products make up around a quarter of products in the Consumer Price Index (CPI) basket.

258 An alternative assumption is to assume that in the absence of the NLW, low-paid workers would only receive pay growth in line with inflation. While these results are not presented in detail here, this assumption would result in an increase to the wage bill impacts of around 0.2 percentage points per year in each scenario, and inflation impacts of around 0.1 percentage points per year in each scenario.

Estimating employment effects

259 To estimate employment effects we use the OWE formula presented in Appendix 1, and back out employment losses using different estimates of the OWE. For this analysis we assume that the affected population is the bottom 35 percentiles of the wage distribution and we calculate the wage effect as the average pay increase received by the workers in the bottom 35 percentiles less median pay growth. We generate these estimates for each combination of spillover and bite values.

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