

## CARNEGIE UK TRUST AND LEARNING AND WORK INSTITUTE JOINT SUBMISSION TO THE LOW PAY COMMISSION REGARDING THE APRIL 2021 NATIONAL MINIMUM WAGE RATES

June 2020

### About us

The Carnegie UK Trust and the Learning and Work Institute welcome the opportunity to make this joint submission to the Low Pay Commission regarding the April 2021 Minimum Wage Rates.

The Carnegie UK Trust works to improve the lives of people throughout the UK and Ireland, by changing minds through influencing policy, and by changing lives through innovative practice and partnership work. We recognise the significant contribution that work can make to wellbeing, which we seek to advance through our 'Fulfilling Work' theme.

The Learning and Work Institute is an independent policy, research and development organisation dedicated to lifelong learning, full employment and inclusion.

### Approach

The Carnegie UK Trust and Learning and Work Institute are currently working in partnership to explore the opportunities, risks and limitations of the policy of increasing the minimum wage on workers, employers and the economy. This project aims to complement existing and ongoing research by a number of organisations, including that led by the Low Pay Commission, into the implementation and impact of minimum wage policy.

As organisations interested in 'Fulfilling Work' and transforming people's experiences of learning and employment for the better, our study is examining how increasing the minimum wage could be part of a wider labour market strategy to drive forward the 'good work' agenda: including access to work, and security, progression and training in-work. Our key research question is: *What would government need to do alongside increasing the wage floor to combat in-work poverty and support 'good work?'*

This submission is based on the evidence and insights gleaned from our research process so far. This includes nationally representative polling of the general public<sup>1</sup> and employers<sup>2</sup>; qualitative research with low-paid workers<sup>3</sup> exploring their views on the current and future minimum wage rates; and insights shared by our expert Project Advisory Group<sup>4</sup>.

1 Online representative survey of 1,502 GB adults aged 18+, run by BMG between the 8th - 11th October 2019.

2 Online representative survey of 1,002 GB employers, carried out by YouGov between 17<sup>th</sup>- 23<sup>rd</sup> March 2020.

3 Four focus groups were held in January-February 2020 with workers paid at or near the minimum wage. Two focus groups were held in London, and one each in Wakefield and North Shields, featuring workers from a mix of sectors earning an hourly wage of between £8.21 and £10.00.

4 Members of the Advisory Group include representatives from: the TUC, REC, Low Pay Commission, Living Wage Foundation, Resolution Foundation, Be the Business, IFS, JRF, CBI, IPPR, FSB, and Trust for London.

We have only answered those consultation questions for which we believe we can contribute relevant insights from our evidence base.

Our first report, *The Future of the Minimum Wage: the Workers' Perspective* was published in April 2020 and can be accessed [here](#). Our forthcoming report *The Future of the Minimum Wage: The Employers' Perspective*, will be published in July 2020. This report will include polling and new depth research with employer representative bodies allowing us to track the impact of the COVID-19 crisis on attitudes to future increases in the minimum wage.

Our final project report with policy recommendations will be published in autumn 2020.

We are grateful to the participation of several members of the Low Pay Commission and its Secretariat on our project Advisory Group. We will continue to engage these members proactively in the development of the project outputs.

If you have any questions regarding our responses to this consultation, please do not hesitate to get in touch with Becca Gooch, Research Manager at the Learning and Work Institute via [becca.gooch@learningandwork.org.uk](mailto:becca.gooch@learningandwork.org.uk) or Gail Irvine, Senior Policy and Development Officer at the Carnegie UK Trust, via [gail@carnegieuk.org](mailto:gail@carnegieuk.org)

3. Apart from the minimum wage, what other factors affect workers in low-paying sectors and occupations? Among other things, we are interested in evidence and views on:
  - The effect on workers of Universal Credit and other rules around benefits and tax.
  - The relationship between the minimum wage and weekly income.
  - Access to transport and the effects this has on working life.

For our report [The Future of the Minimum Wage: the Workers Perspective](#), we explored the views of low-paid workers on the minimum wage via focus groups. Those who participated were very supportive of increasing the minimum wage. However, many were sceptical about the impact a higher minimum wage would have on improving their own personal financial situation due to the cost of living and the interaction of wages with Universal Credit. Some participants reported struggling to afford anything beyond their rent and bills, and on some occasions even struggling to afford those. Many also reported struggling to afford nutritious food, or even three meals a day. Many participants described having to rely on support from friends, family, the local community and foodbanks to make ends meet, with several describing feelings of shame and stigma relating to this.

**Travel** was a particular cause of stress, with low paid workers describing being unable to afford travel fares, and instead having to walk miles to work. Below are some illustrative quotes from our focus group participants:

*“I walk every day back and forth... two and a half miles there and two and a half miles there. And I do that five days in a week.”* (Low paid worker, North Shields)

*“I have to borrow money off [my parents] to survive and how bad is that, having to go and ask my seventy something parents for money to just live, to eat, you know, basic stupid stuff, like just to get a bus to work.” (Low paid worker, North Shields).*

A number of low paid workers highlighted concerns around **Universal Credit**. In particular, they described how any increase in their earnings – either through an increase in the minimum wage or through working additional hours - would be largely off-set by a corresponding decrease in in-work benefit payments received, leaving them little better off:

*“It’s soul destroying. You can’t [work extra hours] because it’s not worth your while. Like, if I was working fulltime, I’d be in exactly the same position.” (Low paid worker, North Shields).*

4. What has been the impact of the NLW since April 2016? Our critical interest is in evidence on the NLW’s effects on employment, hours and earnings. We are also very interested in the NLW’s effects in the following areas:
- Prices and profits
  - Productivity
  - Pay structures and differentials
  - Wider benefits available to workers (including premium pay and non-pay benefits across the workforce)
  - Quality of work, including contract types, flexibility and work intensification
  - Progression and job moves
  - Training
  - Investment

### Evidence from low pay-workers

Participants in our focus groups expressed concerns that employer responses to future minimum wage rises could compromise other aspects of their job quality. Their concerns about future employer actions derived from changes which they claimed to have witnessed following the recent increases in the minimum wage.

Possible future employer responses mentioned by participants included: work intensification for existing staff; removing breaks for staff; reducing or removing financial benefits (e.g. travel expenses, bonuses, incentives); reducing or removing non-pay benefits; reducing differentials by holding down pay for those just above the wage floor; cutting staff hours or cutting the number of staff; investing in automation; or outsourcing work.

Another observed employer response cited by focus group participants was increasing prices for consumers.

Below are some illustrative quotes from our focus group participants:

*“There are companies paying £10.50 an hour. For example, they should be paying five people but actually they’re paying four for the same so, four people are doing more work.” (Low paid worker, London).*

*“We didn't get ours increased because we were already on £8.41.” (Low paid worker, North Shields).*

*“My wage increases were stopped and people now caught up to my hourly rate and that's it, I'm stuck at that level so no pay rise.” (Low paid worker, London).*

*“Because the wages went up we don't get as many breaks... at one time if you'd done four hours you got 15 minutes. You don't get that now. You just don't get a break at all if you, like, four hours.” (Low paid worker, North Shields).*

*“It's either going to be more work for less money or for bigger private companies they'll turn to automation because that would be cheaper. If they're going to pay £10.50 out, they're going to put in a brand spanking new robot to do the job of 20.” (Low paid worker, Wakefield).*

*“For my place they've announced that they're going to be putting the childcare cost up by a pound. So the parents are going to have to pay an extra pound to compensate the rise.” (Low paid worker, North Shields).*

*“All our prices of purchase have all gone up between 20 and 50 pence more on everything.” (Low paid worker, North Shields).*

## Evidence from Employer Polling

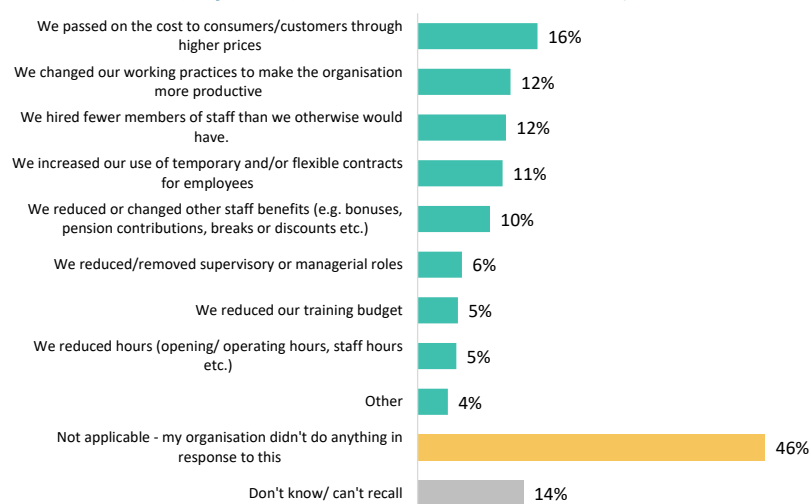
Our employer polling found that nearly half (46%) of employers had not had to make any changes to accommodate the introduction of the National Living Wage – either because they were already paying many of their staff above this rate, or because the costs were easily absorbed without making changes. Of the employers who had to make changes, the most common reaction was to pass on the costs to consumers through price rises (16% of employers surveyed said they had done this).

Other commonly cited employer reactions were: changing workplace practices to make the organisation more productive (12%); hiring fewer members of staff (12%); increasing the use of temporary or flexible staff contracts (11%); and reducing other staff benefits such as bonuses, pension contributions, or paid breaks (10%).

6% of organisations who had made changes to accommodate the National Living Wage said they had reduced or removed managerial roles, while 5% had reduced their training budget.

Please see figure 1 below.

**FIGURE 1 – Employer responses to the introduction of the National Living Wage**



5. The Government has set a new remit for the NLW based on achieving a target of two-thirds of median earnings by 2024. Based on forecasts, our current central projection for the April 2024 NLW rate is £10.69, with a likely range of 30 pence above and below this figure. What are your views on this target and on the LPC's approach to this new remit?

We recognise that the factors underpinning decisions around minimum wage setting are multiple and complex. We also understand that the Low Pay Commission is specifically tasked with considering employment effects when recommending the Minimum Wage rate. Our response therefore seeks to highlight additional considerations around minimum wage setting which have arisen so far in our research. We submit four key considerations:

1. Pre-Coronavirus, there was significant public and employer support for ambitious minimum wage targets - but also recognition of 'trade-offs'.
2. Increasing the minimum wage has been successful in alleviating extreme low pay. It sends a signal that workers should expect a baseline of economic security. This need may become ever more pressing due to the impact of the Coronavirus crisis on low-paid workers.
3. The minimum wage is an important lever for increasing incomes. Yet it is not the only lever - and may not be sufficient on its own - to tackle in-work poverty and promote 'good work.'
4. Employers may require additional support or incentives to accommodate higher minimum wages while not compromising other key aspects of job quality.

These are further expanded on below.

1. Pre-Coronavirus, there was significant public and employer support for ambitious minimum wage targets - but also recognition of 'trade-offs'.

Our research has found that before the COVID19 crisis took hold, increases in the minimum wage were widely supported by employers, employees, and the general public.

- Nearly seven in ten adults (66%) surveyed in our polling of the general public supported the Government's National Living Wage targets, with fewer than one in ten (9%) opposed.
- A slim majority of adults (52%) supported more radical action than current government targets, favouring an immediate increase in the minimum wage to £10 an hour.
- While the low paid workers in the focus groups broadly supported the government's planned increase in the minimum wage, there was a widespread view that the increase was too slow and too modest. Many participants said that 2024 was too long to wait, and that prices would increase in the meantime, limiting the impact of the pay rise on their living standards.
- The public recognised that competing risks and benefits need to be weighed in setting the minimum wage. Even before the current crisis, half (48%) of adults surveyed agreed that government should take a cautious approach to setting the wage floor to avoid an increase in unemployment. On the other hand, one in three (37%) said government should take a more ambitious approach to increasing the minimum wage, even if it risked a small increase in unemployment.
- The majority of employers also supported a higher minimum wage, with 54% of the employers we surveyed in early March supportive of the Government's 2024 National Living Wage targets.

2. Increasing the minimum wage has been successful in alleviating extreme low pay. It sends a signal that workers should expect a baseline of economic security. This need may become ever more pressing due to the impact of the Coronavirus crisis on low-paid workers.

The minimum wage has been considered a policy success in alleviating extreme low pay. The introduction of the National Living Wage helped to further increase hourly pay for those at the bottom of the income distribution. Despite this, many working households remain in poverty.

The anticipated recession as a result of the Coronavirus crisis may exert further downwards pressure on incomes and living standards, disproportionately affecting those who are the least well off. Around 1 in 4 adults say Coronavirus is affecting their household finances and two-thirds of these are worried about reduced income<sup>5</sup>. The Institute for Fiscal Studies has found that one third of employees in the bottom 10% of earnings work in sectors that have been shutdown to contain the pandemic, compared to 5% of workers in the top 10%<sup>6</sup>. At the same time, key workers earn on average a third to a half less than other employees<sup>7</sup>, continuing to work for low pay while endangering their health during the pandemic. The combination of these factors may heighten the imperative for a higher minimum wage which can provide reassurance and recognition to workers that they can expect a baseline of economic security to see them through the health and economic crisis.

3. The minimum wage is an important lever for increasing incomes. Yet it is not the only lever - and may not be sufficient on its own - to tackle in-work poverty and promote 'good work.'

Our research has highlighted that cost of living pressures and the interaction of wages and Universal Credit impinge on the outcomes of the Minimum Wage in tackling in-work poverty. We recognise advising on the cost of living and social security is outside the direct remit of the Low Pay Commission. However, we would urge governments to give due consideration to the interaction of the minimum wage rate with social security and related agendas such as housing, transport infrastructure and childcare. Taking a more holistic view may help quantify the expected impact and limitations of current minimum wage targets for different groups of workers in different localities around the country. This analysis may provide the basis for coordinating action across other policy areas, central government departments and tiers of government.

4. Employers may require additional support or incentives to accommodate higher minimum wages while not compromising other key aspects of job quality.

We recognise that minimum wage setting needs to balance the positive outcomes which may be derived from increasing the minimum wage against other pressures on the economy and employers. This becomes particularly important in times of economic recession. Employers, particularly in sectors worst hit by the Coronavirus outbreak such as hospitality, retail and tourism, may need additional support to accommodate future minimum wage rises. As well as unintended employment effects, our research suggests that if appropriate guidance, incentives and support are not in place to encourage more benign

5 ONS, Coronavirus and the Social Impacts on Great Britain, <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/bulletins/coronavirusandthesocialimpactsongreatbritain/16april2020> April 2020

6 Institute for Fiscal Studies, 'Sector shutdowns during the coronavirus crisis: which workers are most exposed?' <https://www.ifs.org.uk/publications/14791>, April 2020

7 Learning and Work Institute, Coronavirus and the Labour Market: Impacts and Challenges, <https://learningandwork.org.uk/resources/research-and-reports/1913/> April 2020

employer responses, there is evidence that employers may seek to accommodate minimum wage rises by compromising other aspects of job quality within their workforce. As outlined in our response to question 4, potential practices which could undermine job quality include: work intensification and lack of pay progression opportunities; and the removal of breaks or other workplace benefits such as support towards travel costs.

Participants in our focus group were asked what they considered 'good work' to be, and the relative importance of pay weighed against some of these other aspects. Most emphasised that decent pay was the most important. However, they also identified and valued many aspects of 'good work' including: training, development and progression opportunities; job security and contract type; flexibility and work-life balance; non-pay benefits; having supportive colleagues and management; recognition at work; manageable workloads / stress levels; autonomy; and a convivial workplace environment. This multi-faceted understanding of 'good work' resonates with the investigation of the Carnegie UK Trust-RSA convened Measuring Job Quality Working group, which in 2018 set out a framework for measuring job quality in national statistics<sup>8</sup>. Below are some illustrative quotes from our focus group participants:

*“Just being acknowledged, acknowledged for when you work hard. You know, thanks, you’ve done a good job, we really appreciate it.” (Low paid worker, North Shields).*

*“Have flexibility with work and also be able to spend enough time with your kids, especially when they’re young.” (Low paid worker, London).*

*“I think for me having a good job is also having work life balance and in this particular job [care work] there’s no balance.” (Low paid worker, London).*

*“A lot of people struggle with stress issues because of potentially what they’re earning and the job and the pressures they’re under and I think there’s a bit too much of lip service paid. I’ve seen that myself in a big organisation that’s very good at putting up posters but don’t go off sick with stress.” (Low paid worker, Wakefield).*

*“Security... you know that you’ve got a job, with that job you can pay rent, you know that you can help your relatives.” (Low paid worker, London).*

*“It seems like sometimes it’s the lower paid workers that don’t get the same benefits [as highly paid workers].” (Low paid worker, Wakefield).*

Pay should be understood as of foundational importance to job quality, and a vital but not sufficient component of good work. It is therefore important that ambitious minimum wage targets - even if well-calibrated to deliver tangible benefits to household incomes - are not assumed to be a panacea to improving 'job quality' in the round and overall job and life satisfaction for low-paid workers. Where there is evidence that minimum wage rises are being achieved in workplaces at the expense of other aspects of job quality, government needs to consider how it or other actors could be mobilised to encourage more benign employer responses. This might be through e.g. public information campaigns and public recognition of good and bad practice among employers; signposting and/or support and guidance; and an appropriate range of incentives, disincentives, enforcement and redress mechanisms for bad practice.

<sup>8</sup> Carnegie UK Trust, 2018, Measuring Good Work <https://www.carnegieuktrust.org.uk/publications/measuring-good-work-the-final-report-of-the-measuringjob-quality-working-group/>

8. What factors should we consider in recommending a date for reducing the NLW age threshold to 21?  
12. At what level should each of the other NMW youth rates (the 18-20 Year Old Rate and the 16-17 Year Old Rate) be set from April 2021?

Public sentiment and the perception of unfairness may be one factor impinging on this decision. However, we recognise the responsibility the Low Pay Commission has to examine the best empirical evidence and modelling on the potential employment disadvantages on younger people caused by equalising the minimum wage. Below we have grouped our responses to questions 8 and 12 together to provide an overview of public opinion on differentiated minimum wage by age, as captured in our polling and focus groups.

Half (51%) of adults we surveyed think the minimum wage should be the same for workers irrespective of age, while two fifths (38%) believed it is right to have a lower minimum wage for younger workers. Support for a single rate irrespective of age was particularly strong among young people, with two in three (66%) adults aged 18-24 backing this.

Most participants in the focus groups felt that, regardless of age, workers should be paid the same amount for doing the same job. Some highlighted examples of how they thought the lower minimum wage for younger workers was exploited by some employers to reduce wage costs. Some did support a slightly lower rate for younger workers to reflect their experience levels, as long as this also came with training and opportunities to progress. However, the scale of the gap between the National Living Wage and the wage floor for younger workers was seen as unjustifiable and potentially creating disincentives for young people to enter work. Below are some illustrative quotes from our focus group participants:

*“My partner has gone for interviews and has done really well at the interviews, knows he’s got the experience, doesn’t get the job and then will go past if it’s a shop and he will see that it’s someone who is under 21 and they haven’t got the experience because they can’t because they’re not old enough and that they will be on less money.” (Low paid worker, Wakefield).*

*“This is why the young, they don’t want to work because this is what they are working for.” (Low paid worker, London).*