

THE FUTURE OF THE MINIMUM WAGE: AUTUMN 2020 BRIEFING PAPER

October 2020

Key messages

1. Low paid workers need and have earned a pay rise. Even before the coronavirus crisis, some low paid workers, including key workers, are still struggling to get by and afford the basics.
2. If a minimum wage uplift is implemented in April 2021, additional support measures may be needed to support some employers, including temporary reductions in taxation.
3. If the uplift is skipped, the government should find another way of supporting low paid workers. One way of doing this would be to maintain the £20 uplift in Universal Credit and Working Tax Credit beyond April 2021.
4. Whichever option is chosen, there is broad support for the 2024 goal. The government must continue to commit to ending low pay, helping to ensure that workers can achieve a decent standard of living during the historic COVID-19 crisis.

Introduction

Since the introduction of the National Minimum Wage (NMW) in 1997 the proportion of workers in low paid jobs has declined by 6 percentage points, from 22% to 16%. The NMW has led to a substantial reduction in extreme low pay and boosted hourly pay, without a significant negative impact on employment. It has been one of the most successful policies in recent years, and our polling has shown that it enjoys widespread support among the general public, low paid workers and businesses.

There have been recent discussions around an emergency brake on 2021's NMW in light of the COVID-19 crisis. The main rationale for freezing the NMW in April 2021 would be to avoid putting additional pressure on employers' wage bills and to prevent any adverse impact this may have on employment levels.

While there is evidence that previous increases in the NMW have been achieved without costing jobs, these have been introduced when conditions have been relatively benign. With the UK now entering a sharp recession precipitated by the COVID-19 crisis, and the uncertainty posed by the end of the Brexit transition period ahead, there is limited evidence to understand whether further increases could be achieved without costing jobs. There are also specific sectoral challenges to be considered in the future of minimum wage policy. The current recession is driven by certain sectors and the challenges of socially distancing in these contexts. Many of these sectors are also the most likely to have low paid workers. However, it is also important to consider the cost of living, and the impact of the level of the minimum wage on low paid workers. As we highlight below, despite the success of the NMW in reducing low pay, those earning on or near the wage floor are still struggling to meet households bills and maintain a good standard of living. There is also strong support among this group, and the wider public, for a higher NMW.

In light of the existing evidence, coupled with the impact of COVID-19, and the uncertain future of post-Brexit Britain, decisions around future NMW increases will need to be taken extremely carefully. This short paper aims to contribute to the debate about the NMW in the midst of the COVID-19 by highlighting three major findings from our ongoing research programme *The Future of the Minimum Wage*.

Despite the successes of the NMW, some low paid workers, including key workers, are still struggling to get by and afford the basics

Our research showed that low paid workers were not only supportive of the Government's planned increases for the NMW, but want to see it happen sooner. In part, this was because many of those low paid workers we spoke to were still struggling to meet household bills and afford a good standard of living.

As one low paid worker told us:

“ 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).

Our evidence shows that an increase would make a big difference to low paid workers, during a period of uncertainty and pressure on households. What's more, it would also benefit as many as two million key workers who have been on the frontlines of the COVID-19 response, in sectors such as health, care and education.

If the government decides not to pursue an increase next year, there is a risk that low paid workers, many of them delivering essential services during a historic pandemic, will continue to struggle to afford the basics. While this may help offset a negative impact on employment, as we highlight below, there are other options the Government should consider for helping low paid workers with the cost of living.

Businesses support further increases, but some would need extra support to deliver this

Our research has found that there is general support for increasing the minimum wage among employees. But it also shows that businesses in low pay sectors hit hardest by COVID-19 are most concerned about an increase. It shows that:

- Businesses in hospitality and leisure (41%), medical and health services (41%), manufacturing (40%) and retail (38%) were the most likely to say the minimum wage would impact them negatively.
- Businesses in these sectors also anticipated responding to increases by passing on costs to consumers, hiring fewer staff members, reducing benefits, and increasing the use of temporary contracts.

If the LPC recommends an increase in the NMW next year, this suggests a need to support businesses and sectors to manage the increases. Our polling of businesses that are likely to be most affected showed they wanted the following support:

- Half of businesses (49%) of businesses with 25% or more of their employees earning below £10.50 would support temporary reductions in national insurance or other taxation affecting employers.

- Two in five (39%) would like help to invest and skills in employees (39%), while 30% would like advice and support to manage the increase, and 29% would like advice on compliance with the NMW.

An additional or alternative measure could be to extend the cut to the VAT rate for hospitality businesses, currently due to expire on March 2021 – and extend this to other sectors struggling to make the minimum pay rise.

There is widespread support for the Government's 2024 goal

More broadly, our research has also found that there is widespread support for the government's 2024 goal. Our polling of the public and business has found that:

- Two thirds of the public polled in October 2019 supported the government's plan, with broad support across the political spectrum.
- Half (54%) of businesses polled in March 2020 supported the plan, with a quarter (26%) strongly supporting.

Whether or not the NMW is raised this year, there is clear evidence of widespread support for the Government aiming to meet its target by 2024.

Conclusion

The decision facing the LPC and the Government needs to balance the pressure facing businesses with those facing low paid workers. Our research has found:

- If the government **pursues an increase** this year, our evidence suggests that **additional measures to support hard pressed employers could help prevent any further job losses**, including temporary reductions in taxation.
- Conversely, if an **increase is skipped** this year, the government should **find another way of supporting low paid workers**. One way of doing this would be to maintain the £20 uplift in Universal Credit and Working Tax Credit beyond April 2021, which is currently helping to support 16 million people in the UK.
- Whichever option the government chooses, there is **clearly broad support for the 2024 goal**. As COVID-19 continues to unfold, it will be vital that the government continues to commit to ending low pay, helping to ensure that workers can achieve a decent standard of living during a historic crisis.