LEARNING AND WORK INSTITUTE

The future of the minimum wage

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We research what works, develop new ways of thinking and implement new approaches. Working with partners, we transform people's experiences of learning and employment. What we do benefits individuals, families, communities and the wider economy.

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Foreword

For the last five years, the Carnegie UK Trust has led a programme on the theme of 'Fulfilling Work'. We have sought to understand its key determinants and identify the policy and structural changes required to make good quality work available to many more people, improving the wellbeing of individual workers, local communities and society as a whole

For successive UK governments, the minimum wage has been a totemic policy of commitment to supporting good work. Establishing and continually raising a wage floor signals to citizens that they are right to expect a baseline of economic security through their labour. The UK's minimum wage has been an enduring policy success story, which commands strong public support and commitment across the political spectrum. But as our report shows, increasing the minimum wage only goes part of the way towards helping working people out of poverty, with costs of living and cuts in social security limiting the wellbeing gains of a rising wage floor.

We are also conscious that increasing the minimum wage only goes part of the way towards the ambition of a society with better work for all. Pay is a fundamental component of good work, with the idea that work should allow us to provide for ourselves and our families core to our social contract. However, we must also recognise that work that is, for example, unsafe, insecure or lacking opportunities to progress or express your views has a negative impact on wellbeing for individuals, communities and society. Tackling these challenges requires further action in conjunction with the vital task of raising the minimum wage.

This report chronicles the successes and limitations of minimum wage policy over recent years. It charts a sustainable path towards future minimum wage increases - because although the pandemic has had a severe economic impact and many businesses are struggling, low paid workers need and deserve a pay rise. Finally, it sets out other actions that the UK Government should take to contribute towards a society with more good work and a stronger social safety net that protects low paid workers from falling into poverty. We hope our recommendations will be considered carefully by government.

We are grateful to have been able to work with the Learning and Work Institute on this project, Thank you to Joe Dromey, who came to us with the initial idea, and to Becca Gooch and Jerome Finnegan for all their work throughout. We have also benefitted hugely from the insights of our project Advisory Group members throughout the research process. As Chair of that Group, I offer my thanks. Finally, and most importantly, we are grateful to all those who gave their time to participate in and to help organise the research upon which this report is based. The work would not have been possible without you.

Douglas White, Head of Advocacy, Carnegie UK Trust

Executive summary

The minimum wage has been one of the most successful policies of recent decades. This report – the final in a series – explores the impact of the minimum wage over the last two decades, and sets out a path for the future of the minimum wage, as part of an effort to improve the quality of work.

Pay is an important aspect of good work. Our previous reports showed that decent pay, which provided enough to live on, was seen as a foundational element of good work, and that pay was particularly valued by low paid workers.

The introduction of the minimum wage helped to significantly reduce extreme low pay[1], and more recently, the increase in the wage floor through the introduction of the National Living Wage (NLW) has helped reduce low pay[2]. Despite initial concerns, this has been achieved with little if any negative impact on employment, and international evidence suggests that even ambitious minimum wage policies can boost incomes without costing jobs. While it has been successful in tackling low pay, the minimum wage has done little to tackle in-work poverty, which has grown over the last decade driven both by rising cost of living and cuts in social security support.

Following rapid increases to the wage floor in the last five years, the UK government has set a bold target to increase the NLW to two thirds of median hourly pay by 2024, with the stated objective of ending low pay in the UK. This could significantly boost pay for many workers at the bottom end of the income distribution, with a particular impact on women, part time workers, older and younger workers, and on industries characterised by low pay.

The coronavirus crisis makes delivering on this ambition much more challenging. Significant increases in the wage floor will now need to be delivered during a period when unemployment is likely to remain high.

We set out a series of recommendations for the government on the future of the minimum wage:

- The government should **maintain the commitment to increasing the NLW** to two thirds of median hourly pay by 2024. In working toward this goal, government should continue to be guided by the recommendations of Low Pay Commission, which provides a highly effective, evidence-based, social partnership model for informing minimum wage policy.

- Employers should be supported to adapt to a higher wage floor in order to help minimise job losses. This should include a **temporary reduction or rebalancing of**

[1] Where hourly pay is below 50% of the median

[2] Where hourly pay is below 66% of the median

employer National Insurance Contributions, focused on low paid workers, as well as targeted support to sectors with a higher proportion of low paid workers.

- While there remains a case for **age gradation** in the minimum wage in order to minimise the risk of youth unemployment, the NLW should be extended to workers aged 21 and over. Subject to youth employment and guided by the LPC, a single, higher Youth Minimum Wage should be introduced for workers aged below 21, to simplify the system and boost pay for younger workers.

- We recommend that further research is undertaken to consider the challenges, opportunities and feasibility of differentiated **subnational or regional minimum wages** where local areas, nations or regions could set a higher minimum wage, in consultation with the LPC.

- While pay is a foundational element of good work, increasing the minimum wage alone won't address other areas of job quality. There is a risk that a higher wage floor may lead to some employers taking measures that undermine aspects of job quality, such as increasing job intensity or using insecure contracts. A higher wage floor could also mean more bunching of workers at or near the wage floor, making progression more challenging. Future minimum wage policy must be situated within **a broader good work agenda**. Government should consider the impact of increasing the minimum wage on other aspects of job quality, and take measures to promote good work more broadly. This should include promoting sectoral collective agreements in sectors characterised by low pay and poor job quality. This would involve employers and workers agreeing common standards on pay, progression, and training for their sector, to sit alongside the minimum wage.

- Increases in the wage floor should be accompanied by measures to **boost employer investment in skills**, and reduce inequality in access to training. This could involve a tax credit to incentivise investment in lower skilled workers, changes in the rules around access to apprenticeship levy funds, and training requirements for certain roles being set out in sectoral collective agreements.

- Increases in the wage floor may lead to increased underpayment of the minimum wage. Government should use the upcoming Employment Bill to **tackle underpayment of the minimum wage**. This should include a well-resourced 'know your rights' campaign for workers, a 'know your responsibilities' campaign for employers, accompanied by stronger sanctions against employers that undercut the legal minimum and more robust enforcement.

- Increases in the wage floor alone will not be sufficient to tackle in-work poverty. Government must also ensure **sufficient social security support** for low paid workers, including through making the £20 increase in Universal Credit implemented at the start of coronavirus pandemic permanent, and developing their understanding of how to support progression for workers on or near the wage floor.

Introduction

Learning and Work Institute (L&W) has been working with Carnegie UK Trust to examine the impact of increasing the minimum wage on workers, employers and the economy. Building on evidence and in dialogue with workers and employers, the project has explored the opportunities and challenges of a higher minimum wage, and the implications for other key aspects of 'good work', of which pay is a single but important aspect.

As organisations committed to 'Fulfilling Work' and transforming people's experiences of learning and employment for the better, our interest is in 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 study of the minimum wage was instigated on the twenty year anniversary of the policy. The minimum age is regarded as one of the most successful policies in recent decades, maintaining a broad and lasting political consensus and wide popular support (IfG, 2010).

The introduction of the National Minimum Wage helped reduce extreme low pay, and more recently the introduction of the National Living Wage has helped tackle low pay, without a significant negative impact on employment. Despite this, there has been a significant increase in the number of people living in poverty in a working household in recent years. This demands examination of the potential and limitations of the minimum wage as a single policy in addressing the challenges facing low paid workers.

Our key research question is: *What approach should the government take to increasing the minimum wage, and what must be done alongside this to combat in-work poverty and support 'good work?'* Our project has overlapped with significant economic disruption in the form of the UK's exit from the European Union and the impacts of the coronavirus pandemic, underlining the case for continued re-assessment of the risks, limitations, and opportunities of the minimum wage, and analysis of what levers may need to be deployed alongside it, to tackle in-work poverty and support good work.

This is the third report in the series, with the first having focused on the experience and perspective of low paid workers, and the second on employer perceptions of and response to a higher minimum wage (L&W & Carnegie 2020a and 2020b).

This report brings together our findings with additional statistical analysis and modelling of the impact of minimum wage increases. We make recommendations for how minimum wage policy can sit within wider policy to tackle low pay, improve quality of work, and reduce in work poverty. It considers these policy recommendations and analysis in light of the coronavirus pandemic, and the UK's exit from the European Union.

What is the minimum wage and how is it set?

The National Minimum Wage was introduced across the UK in 1999 by the Labour government.

The rate of the minimum wage is decided by the Chancellor, based on recommendation of the Low Pay Commission (LPC). The LPC is an advisory non-departmental public body, which is tripartite: made up of employer representatives, trade union representative and independent experts.

The LPC balances a number of factors in calculating the minimum wage rates, including improving pay as far as possible for the lowest-paid workers, the economic context, the labour market, impacts increases might have on employment levels, and other external impacts both on employers and workers. Unlike the Real (or voluntary) Living Wage, the minimum wage is not calculated based on cost of the living[3].

The LPC has been central to the success and durability of the minimum wage. With representation from both employer organisations, trade unions, government and experts, this social partnership approach has helped to maintain buy-in and build a lasting consensus for the minimum wage. Through building the evidence base around the impact of the minimum wage, the LPC has provided authority to the policy. The role of the LPC is regarded by experts as a significant contributory factor to the policy's enduring success[4]

In 2015, the newly elected Conservative Government announced plans for a National Living Wage (NLW) – which is not to be confused with the Real Living Wage, but which is the name given to a new higher minimum wage for workers aged 25 and over.

The then government set the intention for the NLW to reach 60% of median earnings by 2020. The target of the NLW reaching 60% of median earnings was achieved with the most recent uplift in April 2020, which took the NLW to £8.72.

The current UK government has committed to further increases to the minimum wage, with a target of the NLW reaching two thirds of median earnings by 2024, as well as extending this rate to all those 21 and over.

The aims of the minimum wage over time

In their 1997 manifesto, the Labour Party explained that their aim in introducing a minimum wage was to "*remove the worst excesses of low pay (and be of particular benefit to women), while cutting some of the massive £4 billion benefits bill by which the taxpayer subsidises companies that pay very low wages*" (Labour Party, 1997).

In setting out their plans, the Labour Party emphasised both caution, precedent and parallels. Its manifesto promised the minimum wage would be 'sensibly set', with the level based on economic circumstances, and informed by both employers, employees and experts. It highlighted both the historical precedent in the minimum wages formerly set by

[3] The Living Wage is calculated by the Living Wage Foundation based on the cost of living. It is a voluntary minimum wage, paid by 7,000 UK businesses who believe their staff deserve a wage which meets everyday needs. The Living Wage is £10.85 in London and £9.50 in the rest of the UK, higher than the National Living Wage which is currently £8.72.

[4] See commentary from Professor Arandrajit Dube: https://twitter.com/arindube/status/1350614578430840832

Wages Councils in the UK, and international parallels with other advanced economies where minimum wages were common (ibid).

The 2015 Conservative Government's aims in introducing the National Living Wage were similar, but arguably reached beyond the original aims of the minimum wage. In unveiling the policy in his 2015 budget, the then Chancellor George Osborne said that the National Living Wage aimed to support the move from a "*low wage, high tax, high welfare economy; to the higher wage, lower tax, lower welfare country we intend to create*" (Osborne, 2015). Notably, in addition to increasing the wage floor, the Chancellor announced a four year freeze for working age benefits in the same budget.

In contrast to the National Minimum Wage, where the level would be recommended by the LPC according to economic circumstances, the Chancellor set out a medium-term objective of the National Living Wage reaching 60% of median earnings by 2020. He estimated that in doing so, 6 million workers would see their pay rise as a result. However, he also acknowledged the risk of a 'fractional' negative impact on employment. In order to mitigate this, he also announced an increase in the Employment Allowance, so that small employers would pay less in Employer National Insurance Contributions (ENICs).

The announcement of the current target for the National Living Wage – reaching two thirds of median pay by 2024 – had similar aims. Given the technical definition of low pay is below two thirds of median pay, the then Chancellor Sajid Javid stated that the aim of increasing the National Living Wage to this level was to eliminate low pay (Conservative Party 2019).

The minimum wage after the coronavirus crisis

This Government's current commitment to increase the National Living Wage to two thirds of median pay was made at the end of 2019, when employment had reached a record high, and unemployment stood at a historic low.

When the coronavirus pandemic hit in 2020, severely impacting the economy, some voices in the public debate expressed support for a temporary minimum wage freeze to avoid putting further pressure on employers, and potentially costing jobs. However, Government opted to proceed with the planned increase of 51p, the highest cash increase in the wage floor since its introduction.

The November 2020 Spending Review saw the Chancellor accepting the LPC's advice for a smaller increase to the NLW of 19p in 2020/21 to £8.91/hour. Alongside this, the NLW will be extended from workers aged 25 and over, to those aged 23 and above. It represents an attempt by the LPC and the Chancellor to balance the needs of the lowest paid, and the capabilities of employers to afford such increases in a challenging economic climate. Larger increases to the NLW may be required in the following years to reach the government's target of two thirds of median pay by 2024, although this depends on the extent of median pay growth in the coming years

The minimum wage and good work

Pay is a core aspect of good work. Various studies have found that pay ranks highly among aspects people value in their work, and that this is particularly the case among low paid workers (Hatwig et al, 2016). If pay is not adequate to maintain an acceptable living standard, workers are unlikely to feel satisfied and valued in their jobs, even if they enjoy other aspects of the work.

This was reflected in the findings of our focus groups with low paid workers. These workers emphasised that pay was a foundational aspect of job quality. While other aspects of job quality were seen as important, decent pay was seen as an essential element of job quality (L&W and Carnegie, 2020a).

Clearly, there are other important aspects of good work beyond having a decent income alone. Other aspects of good work include job security, opportunities for training, development and progression, flexibility, work-life balance, voice and control, non-pay benefits, among other things. These aspects of good work were identified by low paid workers in focus groups for the first report in this series. Their perceptions of job quality broadly reflect those set out by Carnegie UK Trust and RSA in their Measuring Good Work report (Carnegie and RSA, 2018).

Moreover, minimum wage policy is only one lever for supporting improvements in pay, and even an ambitious minimum wage policy will only ever impact on wages for those toward the bottom of the income distribution. Achieving better outcomes on pay, for example through increasing rates of pay progression and minimising pay inequality, requires action beyond minimum wage policy.

Nevertheless, minimum wage policy is likely to continue to be a critically important policy for bolstering wages at the bottom of the income distribution. The signal that it sends to citizens that they can expect a baseline of economic security through wages may become even more important as the country emerges from the effects of the coronavirus pandemic.

The impact of the minimum wage so far on pay, employment and poverty

Introduction

As set out above, the aims of the NMW and the NLW have been to tackle low pay, and to give people a pay rise, whilst minimising any negative impact on employment. This section looks at the extent to which the minimum wage has achieved its goals, as well as the impact on in-work poverty.

We find that the introduction of the NMW helped to tackle extreme low pay, and more recently the introduction of the NLW has helped to reduce low pay. Both have contributed to increasing hourly pay at the bottom end of the income distribution, and to a bunching around the wage floor. Despite concerns expressed at the time, neither the introduction of the NMW nor the introduction of the NLW have so far led to a significant negative impact on employment. However, while the minimum wage has helped to tackle low pay, previous increases have done little to tackle poverty.

Low pay

Previous reviews have shown that while the introduction of the NMW helped to significantly reduce the proportion of workers on extreme low pay – which is defined as lower than half of median hourly pay – it has been less effective at reducing low pay – defined as lower than two thirds of median hourly pay (Resolution Foundation, 2015).

Figure 1 illustrates the proportion of UK employees in low paid jobs across three different measures of low pay.[5] These measures are: the proportion in low pay jobs (earning less than two thirds of median earnings); the proportion earning below the minimum wage for their age group, and the proportion earning below the real Living Wage[6] since the introduction of the NMW in 1999.

Figure 1 suggests that in its early years, when the minimum wage was set a level well below two thirds of median pay, it had little impact on increasing incomes further up the distribution.

However, the introduction of the NLW in 2016 – which substantially increased the minimum wage for workers aged 25 and over – was followed by a significant reduction in the proportion of workers on low pay. The proportion of workers on low pay fell from over one in five (20.5%), to under one in six (16.2%). This higher wage floor appears to have had a positive impact on pay, which reached further up the income distribution.

[5] Where low pay is below two-thirds of median hourly earnings.

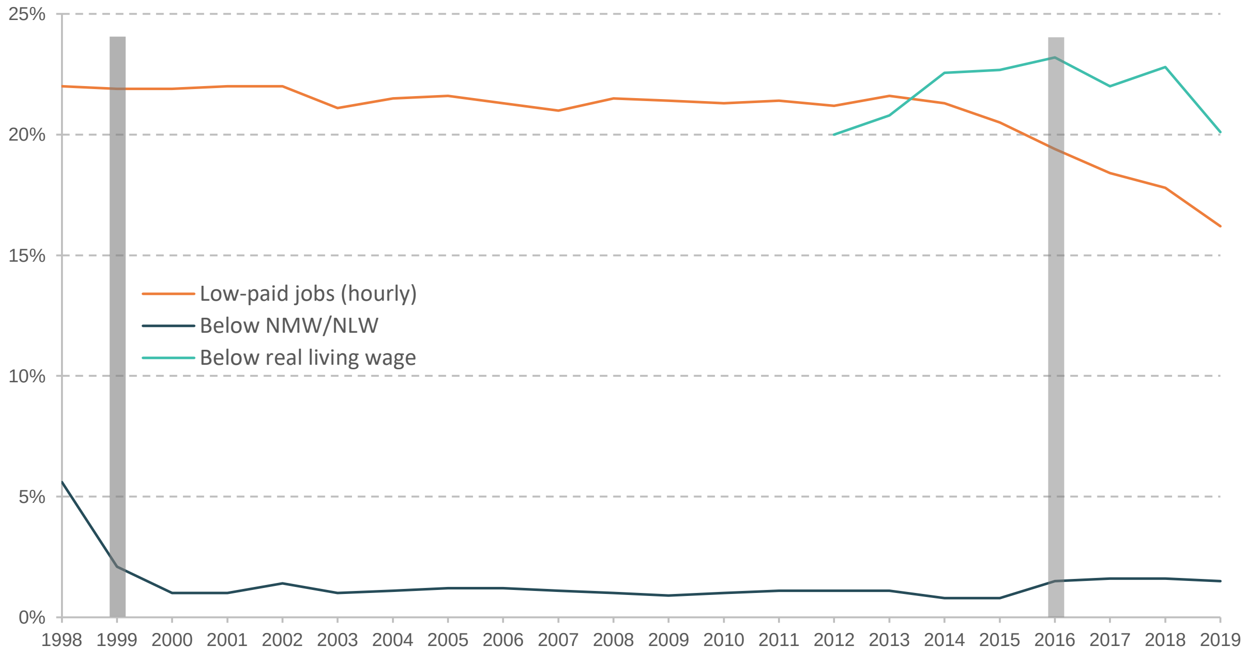
[6] The real Living Wage is different from the NLW as set by the government. It is calculated by the Living Wage Foundation based on actual living costs.

While the NLW seems to have contributed to a significant decline in the number of workers on low pay, it has been less effective at reducing the number of people earning below the real Living Wage. In 2019, one in five (20.1%) workers earned below the real Living Wage, just slightly lower than the proportion who earned below that level in 2015 ahead of the introduction of the NLW (22.7%).

The goal of increasing the NLW to two thirds of median pay by 2024, alongside lowering the age requirement to 21, would lead to a further decline in the proportion of adults in low pay. At that point, the only people earning below that level would be some workers aged under 21, some apprentices who are covered by a lower minimum wage, and workers who are illegally underpaid.

While the introduction of the NLW seems to have led to a rapid reduction in low pay, it also coincided with a significant increase in the proportion of employees earning below the wage floor for their age.[7] The proportion of workers earning below the relevant legal minimum wage doubled from 0.8% in 2015 to 1.6% in 2017, and it has remained high. This suggests a higher wage floor has coincided with higher levels of underpayment of the minimum wage. It is likely that – in the absence of effective and robust enforcement – further significant increases to the wage floor may increase incentives for employers to illegally underpay the minimum wage.

Figure 1: Proportion of all UK employees in low paid jobs, below NMW/NLW, and below real living wage



Source: L&W analysis of ONS Annual Survey of Hours and Earnings

[7] ie. the relevant level of the NMW for workers aged under 25, and the NLW for workers aged 25 or over

The Dube review of international evidence on minimum wages suggests that minimum wages continue to support earnings growth overall whilst also reducing reliance upon welfare and increasing feelings of fairness (Dube, 2019). As a result, it is clear that the NMW and NLW have a net positive impact upon earnings and other outcomes, but there are questions of how the direct benefits of wage improvements can translate into even stronger take home pay for workers.

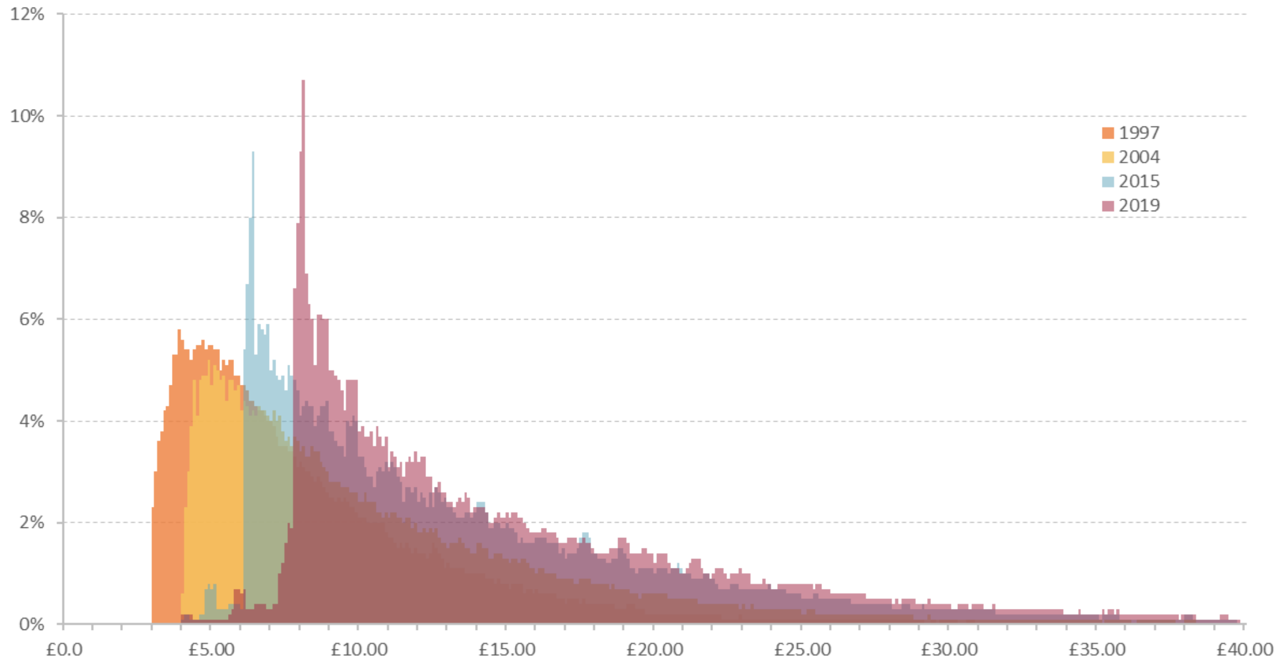
While low pay has been reduced, those living on or near the wage floor are still struggling, as we explored in the first report of our series. As one low paid worker told us in that report (L&W and Carnegie 2020a):

“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).

Earnings distribution

The introduction of the NMW and later the NLW has significantly changed the earnings distribution. With wages rising more rapidly for those at the bottom of the income distribution, but with median incomes stagnating, as figure 2 below shows there has been an increase in ‘bunching’ of workers at or near the minimum wage. Over 10% of employees were paid within 20 pence of the NMW in 2019.

Figure 2: Distribution of UK hourly earnings before and after national wage floor implementation



Source: L&W analysis of Annual Survey of Hours and Earnings

The bottom 20% of workers have seen improvements to their weekly pay growth from the introduction of the NLW with some ‘spill over’ effects reaching up to the 35th percentile of the wage distribution. This has led to significantly higher wage growth for those at the bottom of the income distribution; whilst average wage growth over the first four years of the NLW has been 12%, for NLW workers it has been 29% (LPC, 2020).

While further increases in the NLW could increase pay at the bottom of the income distribution, there is risk that this could lead to further changes resulting in greater bunching around the wage floor. This has potential implications for good work, including reductions in opportunities to progress, and perceptions of unfairness if different roles are receiving similar pay.

Employment and unemployment

One of the main arguments against minimum wages is that they may have a negative impact on employment. There had been concerns that some employers could struggle to afford higher wage bills as a result of a higher minimum wage, and that they would have to reduce their headcount as a result. A further concern was that employers would not be willing to pay some employees the NMW as their work was not seen as having this value, and these employees would either lose their jobs or not be hired in the first place (Avram and Harkness, 2019).

The potential employment implications of the minimum wage have played a major role in shaping the recommendations of the LPC, and the decisions of government around the level of the NMW and NLW (LPC, 2020).

Despite the theoretical potential risk to employment, and concerns expressed ahead of the introduction of the NMW and the NLW, the negative impact of the minimum wage on employment has not yet materialised. The period following the introduction of the NLW saw a significant increase in employment, which reached record levels ahead of the coronavirus pandemic.

A review of international evidence commissioned by government from Arindrajit Dube found that even the most ambitious minimum wage policies seen across the world had 'very muted effects' on employment, while significantly increasing the earnings of low paid workers. Based on these findings, Dube recommended that it would be possible to set a more ambitious target for the minimum wage in the UK, potentially reaching two thirds of minimum wage (Dube, 2019).

Research by Resolution Foundation suggests that overall, the minimum wage has supported low earner wage growth whilst not damaging levels of employment (Resolution Foundation, 2019). Evaluations conducted for LPC found that the introduction of and increases to the NLW have shown that there has been very little impact, or no observable impact at all (LPC, 2018).

This is not to say that future increases to the wage floor will not have a potential negative impact on employment. Our employer survey asked how businesses expected to respond to the government's planned increase in the NLW. 15% of businesses said that they would hire fewer members of staff as a result of the increase in the wage floor, rising to one in three (32%) businesses with a higher proportion of workers paid at or near the minimum wage.

Given the evidence that previous increases to the wage floor have not had a negative impact on employment, these concerns may appear to be over-inflated. Indeed, even if individual businesses say that an increased minimum wage would impact hiring intentions, the aggregate effect may be different if there is a reallocation of workers across employers (CREAM, 2020). However, the minimum wage is higher as a proportion of earnings than it has ever been, and the UK is currently experiencing a period of significant economic uncertainty. Any further increases in the wage floor in the next couple of years will come against the backdrop of higher unemployment as the economy recovers from the coronavirus crisis. Even before the latest lockdown, OBR forecasts suggested that unemployment will remain above 6% until 2023 (OBR 2020). Therefore, the potential for negative employment impacts of minimum wage increases may be greater now that seen in previous years. This means that the government should both consider the employment risk of increases in the wage floor, and consider measures to minimise this.

Poverty levels

While the recent increases in the wage floor through the introduction of the NLW has helped to reduce the number of people on low pay, it has not helped reduce the number of people in poverty.

Figure 3 shows the proportion of UK households in poverty, according to two definitions. The first definition is *absolute poverty*. This counts people living in households with income below 60% of the median household income in a specific base year (in this case 2010/11), adjusted for inflation. It indicates the extent to which living standards of low-income households are improving over time.

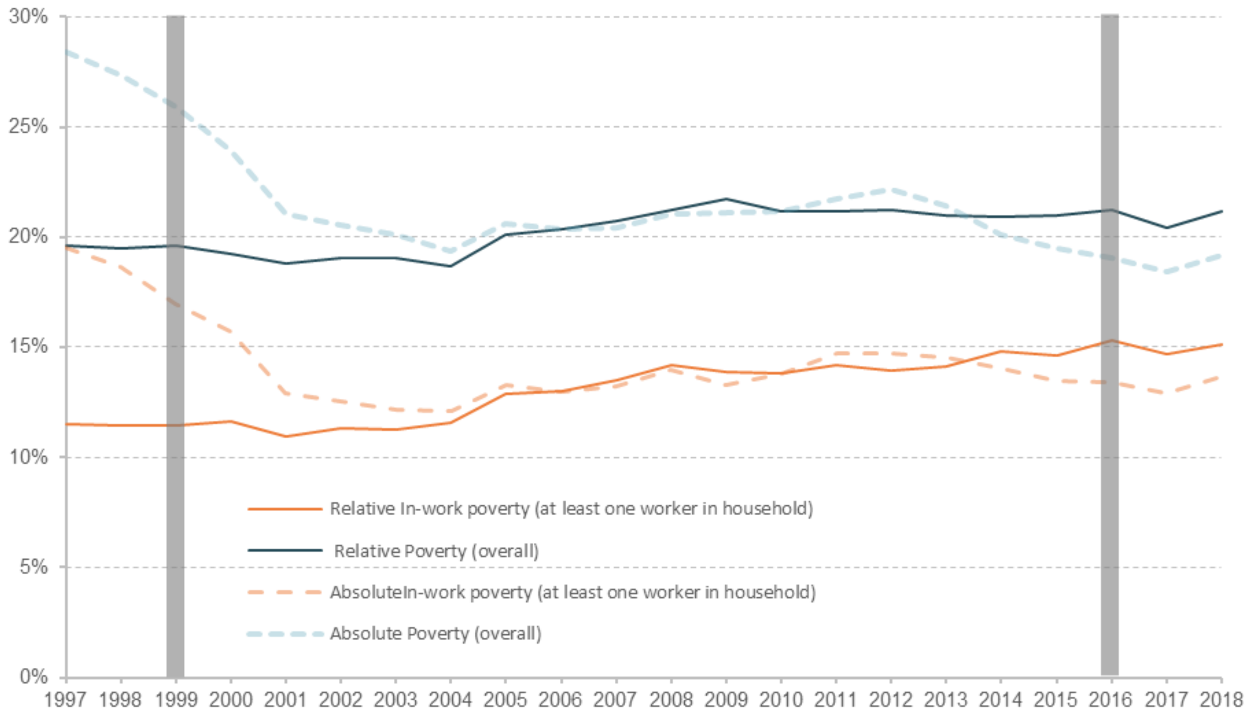
The second measure shown in figure 3 is *relative poverty*. This counts people living in households with income below 60% of median household income in that year. It therefore looks at inequality between low- and medium-income households in a single year.

Prior to the introduction of the NMW, absolute poverty, both overall and for in-work households, was on the decline. It continued to fall immediately after the introduction of the NMW and has remained broadly steady, with minor fluctuations, since 2001, even with the introduction of the NLW in 2016.

Both the NMW and NLW have done little to reduce relative poverty, both in-work and overall, and both levels are higher now than they were in 1997 when the NMW was announced.

The increase in in-work poverty during the period following the introduction of the NLW is partly due to other policy decisions. As set out above, in the same budget that announced the increase in the wage floor through the introduction of the NLW, the Chancellor announced a four year freeze to working age benefits (Osborne, 2015). This had a significant impact not just on people who were out of work, but on the same low paid workers who were intended to benefit from the increase introduction of the NLW. Many of these low paid workers, who were reliant on in work benefits to boost their income, saw an increase in their pay, but a decrease in their total income, as the loss of social security support outweighed the increase in earned income.

Figure 3: Proportion of UK households in poverty



Source: L&W analysis of Family Resource Survey

The increase in in-work poverty during the period when the wage floor was increasing also to a certain extent highlights the limitations of the minimum wage as an anti-poverty measure. As IFS has shown the majority of workers earning the minimum wage do not live in poor households, usually because there are other middle- or high-earning workers in the household (IFS 2019). This means that when the minimum wage is increased, much of the increase in pay goes to households who are not in poverty.

That the NMW and NLW have had little impact on in-work poverty levels, shows that a minimum wage is not an effective enough lever by itself to eliminate in-work poverty. The next chapters in this report will look at how increasing the minimum wage to two-thirds of median income will impact on different groups, examine how the minimum wage interacts with benefits and taxes, and consider how minimum wage policy can feed into the good work agenda.

The potential impact of increasing the minimum wage

In this section we explore the potential impact of increasing the minimum wage on different groups of workers in the labour market and on different industries. We show that the planned increase in the wage floor would have a very significant impact on pay levels for some groups of workers, and some sectors of the economy.

Demographic impact

The government's planned increase in the minimum wage will have a variable impact across different groups of workers. We examine the impact by age, gender, employment status, region, occupation and sector to highlight the areas of the labour market where the increase in the wage floor will have the biggest impact.[8]

The LPC's reports and analysis have set out indicative paths towards reaching the objective of 66 per cent of median hourly wages by 2024. Their indicative path forecast for achieving the 66 per cent objective in 2024 is £10.32, on the basis of currently available official forecasts of average weekly earnings growth.

In order to compare the scale of the impact across different groups, we updated a range of tables that were included within the LPC publication "The National Living Wage Beyond 2020" that showed the impacts of a two-thirds target for the National Living Wage, using 2018 data.

The following analysis is conducted on the basis that, instead of 2024, the 66 per cent of median hourly rates (for the relevant age category) had been reached in April 2020. This assumes then that the NLW has been increased to £9.46 an hour – 66% of median hourly pay – as opposed to the current level of £8.72. This enables analysis breaking down the categories of people affected by the change.

Table 1: Numbers affected by a notional two-thirds NLW target for workers aged 21 and over, by selected characteristics

Characteristic	Thousands of workers	Percentage of workers
Full-time	2,113	11.8
Part-time	2,131	31.7
Male	1,641	13.6
Female	2,603	20.8
22-29	992	23.4

[8] Here our analysis assumes no employment effect of a higher minimum wage, and no indirect or spillover effects

30-39	907	14.6
40-49	854	14
50-59	927	16.3
60 and over	565	23.6

Source: L&W calculations using ASHE published tables, Note: The under 22 figures are minimum estimates

Table 1 shows the number of workers, and the proportion of workers with those characteristics who may be affected by increasing the National Living Wage to two-thirds of median earnings, using the 2020 data.

It shows that:

- **Part time workers** (31.7%) are almost three times as likely to be affected by the increase in the minimum wage as **full time workers** (11.8%);
- **Women** (20.8%) are significantly more likely to be affected than men (13.6%);
- **Younger workers** (23.4% of those aged 22-29) and **older workers** (23.6% of those aged 60 plus) are more likely to be affected than those in mid-career.

Region

We conducted similar analysis to explore the impact of increasing the minimum wage by region.

Table 2 shows the pattern by region.[9] It suggests that increasing the NLW could affect the pay of over one in four workers in Northern Ireland (30.8%), Yorkshire and the Humber (27.4%), the North East (27.2%), East Midlands (26.8%), and Wales (25.9%). The lowest proportions are in London, Scotland and the South-East of England.

Table 2: Numbers affected by a two-thirds NLW target, by region

	thousands	per cent
Workers 16+	**2020 Two-thirds NLW**	**2020 Two-thirds NLW**
United Kingdom	5,070	19.5
North East	242	27.2
North West	651	24.3

[9] The analysis could not be restricted to those 21 and over, so covers all employees. The UK total therefore includes the under 22s who were only included in Table 1 in the last line. The Low Pay Commission did not publish this type of table.

Yorkshire and The Humber	566	27.4
East Midlands	467	26.8
West Midlands	519	24.5
East	496	21.3
London	408	10.7
South East	684	17.3
South West	541	25
Wales	292	25.9
Scotland	362	16.6
Northern Ireland	292	30.8
Source: L&W calculations using ASHE published tables		
Note: The estimates are for workers aged 16+		

Occupation and sector

Table 3 shows the patterns of those affected by occupation.

A majority (56.3%) of workers in elementary occupations would be affected, with nearly half (43.8%) of workers in sales and customer services, and more than three out of ten (34.9%) in caring, leisure and other service occupations being affected.

Table 3: Numbers affected by a two-thirds NLW target, by occupation (high-level)

	thousands	per cent
Workers 16+	**2020 Two-thirds NLW**	**2020 Two-thirds NLW**
United Kingdom	5,070	19.5
Managers, directors and senior officials	-	0
Professional occupations	-	0
Associate professional and technical occupations	-	0
Administrative and secretarial occupations	551	19.2

Skilled trades occupations	476	27.1
Caring, leisure and other service occupations	860	34.9
Sales and customer service occupations	829	43.8
Process, plant and machine operatives	398	29.4
Elementary occupations	1,382	56.3
Source: L&W calculations using ASHE published tables		
Note: The estimates are for workers aged 16+		
Note: Estimates do not total to the UK estimate as a result of the interpolation method used.		

Table 4 shows the pattern by sector, and includes the LPC's estimates for those aged 21 and over, based on 2018 data. The estimates we have produced include all employees, including those aged below 21. We are also using an industrial grouping that is not completely identical, but similar. Therefore, there are differences in coverage both by age and sectoral definition. The differences by age particularly affect those sectors that are very large employers of under-21s. In particular, the low-paying sectors of hospitality (accommodation and food services) and retail employ many young people, who are a particularly large share of workers in hospitality.

Despite this, the pattern of the numbers of employees covered as a result of moving to a two-thirds Minimum Wage level is very similar. Across both the original LPC forecasts, and our updated figures for 2020, the industries that have a highest proportion of workers that would be affected are hair and beauty, accommodation and food services/hospitality, childcare, cleaning, and retail.

Table 4: Numbers affected by a two-thirds NLW target for workers, by industry

Aged 21+	thousands		per cent			thousands	per cent
Low-paying industries	**2018**	**Two-thirds NLW**	**2018**	**Two-thirds NLW**	**Workers 16+**	**2020 Two-thirds NLW**	**2020 Two-thirds NLW**
Hair and beauty	25	53	31.1	55.2	Hair and beauty	66	78.0
Hospitality	298	699	27.2	52.7	Accommodation and food service activities	718	66.7
Childcare	29	102	16.6	49.4	Child day-care activities	105	64.0

Cleaning and maintenance	112	207	27.1	47.2	Cleaning activities	136	57.8
Retail	353	1,052	15	39.6	Retail	939	44.2
Textiles	11	26	16.9	35.8	Textile manufacture	31	42.3
Security	11	33	12.9	34.9	Security	23	30.0
Social care	145	434	12.2	33.8	Social care	509	34.7
Agriculture	16	42	13.8	32.5	Agriculture and fishing	61	33.9
Food processing	40	118	11.3	30.9	Food processing	116	29.7
Leisure	45	129	12.5	30.4	Arts, entertainment	173	23.1
Employment agencies	69	157	14.8	29.1	Employment agencies	108	26.0
Wholesale food incl. agents	26	66	10.9	25.3	Wholesale food	43	23.1
Low-paying industries	1,182	3,117	16.9	39.4	Services industries	4,491	20.4
Non low-paying industries	423	1,616	2.4	8.6	Production industries	447	15.5
Total	1,604	4,733	6.5	17.8	All industries	5,070	19.5
Source: LPC calculations using ASHE 2010 methodology, standard weights, UK, 2018.					Source: L&W calculations using ASHE published tables		
					Note: Estimates are for workers aged 16+		

The overall similarity of the patterns of people affected by a move to a higher minimum wage to those analysed by the LPC give us confidence that the patterns affecting analyses that we have not been able to replicate would also be similar (Brewer and Asgostinin 2017). These include an analysis by ethnicity, disability, and whether or not they have a qualification, and the analysis of the impact of minimum wages by family income decile - which impacts on poverty. In that analysis, from Brewer and Asgostinin, 2017, the National Minimum Wage (for under 25s) impacted in more than 10 per cent of families from the lowest decile of household income up to the 6th decile, while the National Living Wage impacted more than 10 per cent of families from the second decile up to the 7th decile. Therefore, the Minimum Wage system impacted across large parts of the household income distribution.

Future paths for the minimum wage

Our previous reports have shown that there is strong and broad public support for increasing the minimum wage, and that a majority of businesses support the aspiration too (L&W and Carnegie, 2020a and 2020b).

Our analysis has shown that increasing the National Living Wage could have a positive impact on pay for those at the bottom of the income distribution, with a particularly significant impact on certain groups of workers.

Given this, despite the more challenging labour market context compared to when the aspiration was set out, **government should maintain the commitment of increasing the National Living Wage to two thirds of median pay by 2024, helping to move towards the goal of ending low pay. Government should continue to be guided in the path to achieving this by the recommendations of the Low Pay Commission.**

However, beyond this headline aspiration, there are many issues to consider around the future path for the minimum wage.

Support for employers

While there is broad popular support for further increases in the minimum wage, there is concern among some employers about the impact of further increases.

Our second report in this series, focused on the impact of the minimum wage on employers. Our research found that 29% of businesses were concerned that a higher minimum wage would have a negative impact on their organisation. In some sectors, a higher proportion of businesses were concerned about the impact of a higher minimum wage, including in hospitality and leisure (41%), medical and health services (41%), manufacturing (40%), and retail (38%). These sectors are those which tend to have higher numbers of workers on low pay.

Our polling found that three in four businesses (73%) believe the government should provide support to employers to help manage the impact of NLW increases, with only 17% saying no additional support was necessary.

Help in upskilling workers was the most popular measure (37%), suggesting that businesses see boosting productivity as vital to adapting to a higher wage. The second most popular measure was introducing temporary reductions in national insurance and/or other taxation in order to support employers to adapt to the higher rates, which was backed by a third (33%) of businesses. Employers also wanted advice, both on minimum wage compliance (31%) and more general business advice (30%).

The appetite for national insurance or tax reductions was particularly strong among those for whom the increases in the NLW will make the biggest impact. Among businesses with at least a quarter of employees earning below £10.50, half wanted to see a temporary reduction in national insurance.

There is some precedent here. As highlighted above, given concern about the potential impact of a higher wage floor on small businesses, the introduction of the National Living Wage came alongside an increase in the Employment Allowance (Osborne 2015). This meant that small employers who faced higher wage costs were to some extent compensated by lower non-wage costs, in the form of a reduced bill for Employer National Insurance Contributions.

There is a particularly strong case for similar support for employers in the current context. The coronavirus pandemic and associated shutdown has impacted acutely on many businesses. The sectors highlighted above which tend to be more concerned about the impact of increases in the minimum wage – including hospitality and retail – also tend to be those which have suffered a particularly significant impact from the pandemic. While low paid workers deserve a pay rise, and there is a strong case for continuing to increase the minimum wage, it will also be vital for the government to provide support for businesses to manage minimum wage increases.

As the government continues to increase the NLW towards the target of two thirds of median earnings by 2024, it should consider a **temporary reduction or rebalancing of employer national insurance contributions (NICs) as a measure which could support employers to adapt and minimise job losses**.

A **reduction of employer NICs** could be delivered through temporarily increasing the secondary threshold under Class 1 employer NICs. Employers start paying National Insurance Contributions for workers who earn above the secondary threshold, which currently stands at £169/week. This means that employers start paying employer NICs for a worker earning the National Living Wage who works just 20 hours a week.

A temporary increase to the secondary threshold would mean that employers only start to pay NICs for higher earning workers. This would reduce the non-wage costs of employing lower paid workers, helping to protect jobs during the transition to a higher minimum wage.[10]

Increasing the secondary threshold alone would reduce the tax burden on employers, but it would come at a cost to the Treasury. Alternatively, government could opt for a **temporary rebalancing of employer NICs**, which would reduce costs for employers impacted by the increased minimum wage, but protect revenue to the Treasury. This could be delivered by a temporary increase to the secondary threshold, and a temporary increase in the rate at which NICs are paid from the current level of 13.8%. Increasing both the threshold and the rate of employer NICs would mean a reduction in NICs for

[10] There is some debate about the incident of wage taxes such as employer NICs. Some argue that cuts in employer NICs would lead to higher wages, whereas other argue that they would lead to higher employment. There is good evidence (see for example Saez et al. 2017) to suggest that reductions in employer NICs will have a positive protective impact on employment, alongside a potential positive impact on wages.

employers who have low paid workers, balanced by a slight increase in NICs for employers for workers on higher pay.

Whether NICs are reduced or rebalanced, this measure should be temporary. We envisage it could run from 2022/23 until 2025/26, in order to give employers time to adapt to a higher minimum wage. However the withdrawal of this temporary measure would only take place after the NLW target has been achieved, and subject to economic conditions and the advice of the LPC in order to avoid a wage shock to employers. Such a measure would reduce non-wage costs for employers, thereby compensating for higher wage costs as a result of the higher minimum wage. It could ensure workers benefit from a pay rise, whilst minimising any potential job losses.

Alongside temporary financial support through a reduction or re-balancing of employer NICs, government should consider how it can support sectors that have been hit hardest by the coronavirus pandemic to adjust to a higher minimum wage from 2021 onwards. Employers in low pay sectors such as retail and hospitality are both more likely to have been hit hard by the pandemic, and are more likely to see a direct impact from a higher minimum wage. Many employers in these sectors will have to implement the latest increase in the NLW just as they take workers off the furlough scheme in April 2021. These sectors, therefore, may need **additional and tailored support in order to accommodate future minimum wage increases**. **The nature and targeting of this support could be agreed and delivered through new sector deals, or through other forms of social dialogue between affected sectors and employer and worker representatives.**

Age gradation in the minimum wage

As part of our research for this series, we considered differentiated minimum wage levels by age.

From its introduction in 1999, the NMW had lower rates for younger workers. This age gradation was increased with the introduction of the NLW which applies only to workers aged 25 and over. At present, the NLW is nearly double the minimum wage for workers aged under 18 (£4.55), and over £2 higher than the rate for workers aged 18-20 (£6.45).

In addition to lower rates for younger workers, there is also an apprentice minimum wage, which is lower still. The apprentice minimum wage – which is the legal minimum wage for apprentices irrespective of age on the first year of their programme – currently stands at just £4.15. Following the completion of the first year of their apprenticeship, the apprentice is entitled to the minimum wage for their age. There is evidence of widespread underpayment of the apprentice minimum wage, which appears to relate to the complexity of the rules, and employer misunderstanding of them. Previous L&W research has highlighted high levels of employer non-compliance with the apprentice minimum wage, which seems to be driven by a substantial minority of employers not understanding the rules (L&W, 2017).

The government has announced its intention to reduce the age gradient in the minimum wage. The NLW will be extended to workers aged 23 and over from April 2021, and as part of the plan to increase the NLW to two-thirds of median income by 2024, the government have committed to extending the NLW to all workers aged 21 and over.

The lower youth rates of the minimum wage are intended to prevent youth unemployment. Evidence has shown that younger workers are more vulnerable within the labour market, with 16 and 17 year olds more vulnerable than 18-20 year olds, who are more vulnerable than those aged 21 or over. Additionally, young people are also more likely to experience scarring if they become unemployed, outlining the importance of protecting their employment.

However, there are also potential risks with excessive age gradation. These include incentives for employers to substitute older workers for slightly younger workers in order to minimise wage bills (Dube, 2019).

Among the general public, our research found that half (51%) believe the minimum wage should be the same for all workers, irrespective of age, while nearly two in five (38%) thought it was right to have a lower wage for younger workers.

The low paid workers in the focus groups felt similarly. While some suggested it might be right to have a lower youth rate both to reflect experience levels and to minimise the risk of youth unemployment, the scale of the gap between the NLW rate and the lower rates for younger workers, in particular the rate for 16-18 year olds, was seen as unjustifiable, and potentially undermining work incentives for younger people.

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 but felt that employers should proactively provide training and opportunities to progress as a route out of this level of minimum wage.

We saw a similar perspective from employers, with most representatives telling us that employers tend not to use the different wage points for 21-24 year olds that currently exist, except within training or trial periods. Overall, the move to 21+ for the NLW was seen as uncontroversial.

There have been some moves to push for even less age gradation, with the Labour 2019 election manifesto pledging a flat £10 minimum wage for all those aged 18+. This pledge – which would have increased the minimum wage for this group by over 50% – was also backed by half (52%) of the public at the time, indicating some popular support for reducing age gradation with the wage floor.

There was, however, a general feeling among the low paid workers that a lower minimum wage should be in place for those under 18, to reflect the lower experience levels, and to avoid younger workers being priced out of the labour market.

As with other aspects of minimum wage policy, careful consideration is needed to balance protecting employment rates for young people, with boosting incomes for the lowest paid, and ensuring fairness across age groups.

It is clear that young people face a higher risk of unemployment in general, with a particular risk during downturns. It is also clear that young people are more likely to see a negative employment impact if the minimum wage is set too high. Given this, an approach which sets a single minimum wage across all age groups would either risk pushing up youth unemployment, or it would need to be set at a modest level, which would limit the ability to tackle low pay for older workers.

For this reason, we believe that some age gradation should be retained within the minimum wage in order to minimise a negative impact on youth unemployment, whilst also allowing the flexibility for an ambitious rate for older workers, which eliminates low pay. However, **government should seek to both reduce age gradation to bring more workers out of low pay, and simplify the system in order to increase both employer understanding of their responsibilities and worker understanding of their entitlements**.

Government should proceed with expanding the coverage of the NLW from 23 next year, to 21 by 2024, with the timing based on the path of youth unemployment after the pandemic.

We suggest by 2024 government could consider eliminating both the separate apprentice minimum wage, and the separate 16-17 rate which both currently stand at around half the level of the NLW. Such a move would reduce the number of minimum wage rates from five at present, to just two:

- The **National Living Wage**, which would cover all workers aged 21 and over;
- The **Youth Minimum Wage**, which would cover all workers aged 20 and below

There would be several benefits of this approach, including boosting pay for younger workers, simplifying the system, minimising potential incentives for substitution and addressing perceptions of unfairness. However there would also be risks. A balance would have to be struck between setting the youth rate at a level that might impact on employment for young workers (16-17 year olds), and setting it at a level which would be too low for workers toward the top of the age range (18-20 year olds). Such a change should be subject to labour market conditions for young people, and considered in consultation with the LPC.

In addition to simplifying the system and increasing understanding among both employers and workers, abolishing the apprentice minimum wage would increase the relative incentives for employers to invest in apprenticeships for younger workers. At present, the apprentice minimum wage is the same for apprentices irrespective of their age. This proposed change would mean that apprentices aged under 21 would be entitled to the Youth Minimum Wage, which would be set at a lower rate than the National Living Wage, meaning that the wage costs for apprentices aged 16-20 would be lower than for apprentices aged 21 and older. This would reverse the trend we have seen in recent years, whereby an increasing proportion of apprenticeship starts have been accounted for by older workers and existing employees.

Devolution and the minimum wage

Throughout this series, we have also considered regional variation in the wage floor; that is, the potential for a differentiated minimum wage rate to be set by sub-UK or regional authorities.

After many years of devolution, and in recent years increased decentralisation to a growing number of English regions, there is significant diversity and difference across the UK in how many aspects of public policy are delivered. Employment law is, with the exception of Northern Ireland, however, a competency reserved to the UK Government. Therefore at present the minimum wage as set by the UK Government is the same across the UK. This contrasts with many advanced economies, where sub-national authorities have the ability to set a local minimum wage. In the United State for example, there is a relatively low federal minimum wage ($7.25), but most states and some cities which set higher minimum wages.[11]

In this section, we look at the context related to good work and the wage floor in the devolved jurisdictions of Northern Ireland, Scotland and Wales. We discuss our evidence base on public attitudes to the potential for regional minimum wage setting. We then examine the arguments in relation to differentiated minimum wage setting at either sub-national or regional level, and point to the need for further research.

Northern Ireland

Employment law is devolved in Northern Ireland. However, over the years most of the relevant legislation passed by the UK Government has also been enacted in Northern Ireland, with the result that most employment rights are the same as the rest of the UK. In legal terms, the national minimum wage does not fall neatly into a transferred, excepted or reserved matter for Northern Ireland. The National Minimum Wage Act 1998 extended to Northern Ireland, but required the Northern Ireland legislature to make use of mirroring legislation to bring it into force. In practice, Northern Ireland has used the Minimum Wage rate as set by the UK Government since this was introduced and continues to do so.

[11] The newly elected President Biden has pledged to increase the federal minimum wage significantly to $15 an hour. At the time of writing, this is included in a proposed Coronavirus relief package which is subject to congressional approval.

However, the *New Decade New Approach* agreement that re-established the Stormont Assembly in 2020 contains a proposal in Appendix 1 (Employment Rights) xxii that *'the parties agree […] to make powers to set minimum wage levels a devolved matter',* suggesting a future possibility of different decisions being made on the minimum wage in Northern Ireland to the rest of the UK (UK Government and Irish Government, 2020).

On the broader issue of 'good work,' this had also been recognised separately in Northern Ireland. Specifically, the draft Programme for Government published in 2016 included a commitment to increase the number of people working in 'better jobs' and to track the quality of work in Northern Ireland via a 'Better Jobs Index'. The roll out of this initiative or related action on raising the wage floor was delayed by the lack of a functioning Executive in the years 2017-2020, however this work has now re-started, with the recent publication of new analysis of six new areas of job quality indicators in Northern Ireland and ongoing exploration of policy options in this area (NISRA 2020).

Scotland

Scotland has had what is termed a 'Fair Work' agenda for several years, with a Cabinet Secretary for Fair Work and a dedicated government directorate. In 2019 the Scottish Government published a Fair Work Action Plan and 'fair work for all' was enshrined as one of 11 national outcomes in Scotland's National Performance Framework, which sets out a vision for national wellbeing and charts progress towards this through a range of social, environmental and economic indicators. The Scottish Government has also begun implementing Fair Work First, which aims to tie fair work principles to financial assistance and access to Government procurement contracts (Scottish Government, 2019).

Scotland's Fair Work policies related to pay have focused on promoting the real Living Wage as an alternative, higher, wage floor. Payment of the real Living Wage is part of the Fair Work First criteria and the number of employees earning above the real Living Wage measured under the Fair Work outcome in the National Performance Framework. Most recently the Scottish Government's 2020 Programme for Government pledges to *'actively work with employers to expand payment of the real Living Wage, with the aim of 25,000 additional workers receiving payment'* (Scottish Government, 2020).

Wales

The Welsh Government has its own distinctive 'Fair Work' agenda, with a dedicated Social Partnership and Fair Work Directorate established within government. This Directorate is tasked with the process of implementing the 48 recommendations, accepted in principle by the Welsh Government, made by an independent Fair Work Commission which reported in 2019. Action on 'pay' is considered under the Fair Work principle of 'Fair Reward.' The Fair Work Commission report posits the ambition that '*the Welsh Living Wage (equating to the real Living Wage) provides the minimum wage floor for all working hours,'* with suggestions that payment of the Living Wage be tied to the awarding of government contracts and financial assistance, and that it is adopted as the wage floor in the Agricultural sector, where the Welsh Government has direct competency over wage setting under the Agriculture Sector Wage Wales Act (2014) (Fair Work Commission, 2019).

Future minimum wage powers in the devolved jurisdictions

While there has been limited recent public debate on the prospect of minimum wage setting being devolved, devolution in the UK is a 'process, not an event.' The Scottish Government, for example, has asked that greater powers over immigration policy be devolved to Scotland following Brexit. While by operation of the Northern Ireland protocol, agreed as part of the UK's Withdrawal Agreement with the European Union, Northern Ireland now occupies a distinctive trading and regulatory environment to the other parts of the UK. There is potential that the proposal for powers of minimum wage setting in Northern Ireland could be used to respond to this new context.

Having now exited the Brexit transition period, the implications of the UK's new trading, regulatory and immigration regime will start to be felt on the labour market. Depending on the perceived outcomes of these arrangements for the devolved jurisdictions, it is possible that further debates may arise on the potential for new powers to be assumed by devolved governments, to enable them to forge a distinctive path on key labour market issues including minimum wage setting.

What does the public think?

Through our public polling, we found that a narrow majority of adults support maintaining the status quo, with 52% agreeing the minimum wage should be the same across the UK. A sizeable minority (37%) however believe that nations and regions within the UK should be able to set their own higher minimum wage. London was the only part of the UK where a majority of adults (53%) supported local flexibility over the minimum wage.

These feelings were largely echoed in the focus groups. Londoners generally thought the minimum wage in London should be higher due to the cost of living, with some having friends and colleagues who have moved to cheaper areas because they can no longer afford London. Views outside of London were more mixed. Some participants in North Shields agreed that there was a case for a higher wage floor in London in order to reflect the higher cost of living. However, low paid workers in Wakefield were more conflicted; some thought higher wages elsewhere might be a good thing in encouraging business into disadvantaged areas, while others felt this risked exacerbating regional inequalities.

Conversations around the devolution of minimum wage powers focused generally on London. London has a significantly higher cost of living, which has led the Living Wage Foundation to calculate a higher London Living Wage for the region. Our polling found that businesses in the capital were the most supportive of a higher wage floor, and less concerned about the impact on their business. Two thirds (66%) supported the plan to increase the NLW to two thirds of median income by 2024, compared to just over half (54%) across the UK, and 35% in the North.

Pros and cons of a single UK rate

There are a number of considerations around the pros and cons of the status quo - that is, a single UK minimum wage rate - and the challenges and opportunities which may be presented by the possibility of regional or devolved minimum wage setting. This is a multifaceted issue which requires consideration of how the risks and complexity of regional wage setting could be overcome as well as how any system of regional wage setting might interact with the successful evidence-led wage-setting model established by the LPC at a national level.

A single national rate provides simplicity for employers, particularly larger organisations operating across the UK, and a perception of fairness for citizens who are entitled to the same wage floor (depending on age) regardless of location. The single UK rate avoids 'border effects', where businesses on either side of any minimum wage jurisdiction would be operating in different regulatory and cost environments, but potentially the same markets for their goods and services.

However, having a single rate neither reflects variations in the ability of employers to afford a higher minimum wage, nor variations in the cost of living in some areas.

Having a single rate also denies local areas a key lever over labour market policy, and the ability to set a minimum wage which might better suit their local circumstances.

We recommend that **further research is undertaken to consider the merits of devolving powers to nations and regions to vary the minimum wage**. This research should explore the range of challenges to an effective approach for differentiated regional minimum wages, and whether and how these challenges might be mitigated against.

Any potential future move to devolve powers around the minimum wage should only permit areas to set a rate that is higher than the national wage floor. This would ensure that there are no possible incentives for areas to undercut each-other, which could lead to a 'race to the bottom'. Any potential future devolution should also build on the successful evidence-led wage-setting model established by the LPC at a national level, to ensure that the setting of the rate does not become excessively politicised. The approach would also require the availability of sufficiently disaggregated data, and resources for compliance and enforcement.

Good work

There has been an increasing focus on 'good work' in recent years. While the employment rate rose significantly in the run up to the coronavirus crisis, there was a growing recognition that too many people in work remained in poverty, and too many suffered from insecurity and other aspects of poor quality work.

As we highlighted above, decent pay can be considered to be a fundamental aspect of good work. While the low paid workers we spoke to for this series identified several aspects of good work – including security, progression and work-life balance – decent pay was the most important aspect of work to them. It was also seen as a foundational aspect of good work; other aspects of good work were seen as issues to worry about once they could afford basics.

In thinking about the minimum wage, and the role it can play in tackling low pay, it is vital to situate this within the wider debate about improving job quality.

There is a risk that a narrow focus on boosting hourly pay through increasing the minimum wage alone may fail to address other important aspects of job quality. Indeed there is a risk that this may in some cases lead to negative consequences for other aspects of job quality.

Contract type and job security

In addition to high levels of low pay, the UK suffers from high levels of insecure work. One in nine people in employment – 3.6m in total – were in some form of insecure work in advance of the coronavirus crisis (TUC, 2020).[12]

There is some concern that a higher wage floor may lead to a greater use of insecure work. Our employer survey found that one in nine (11%) of all businesses said they had made greater use of temporary and flexible contracts in order to respond to the introduction of the NLW. One in ten (10%) businesses said they planned to increase their use of such contracts in response to the increases to the NLW, rising to over one in five (22%) businesses with a higher proportion of low paid workers[13].

The evidence around the impact of the NLW on zero hours contracts and other forms of insecure work is mixed. There is some evidence to suggest that the usage of zero hours contracts did increase at the introduction of the NLW in low paying sectors such as care (Datta et al, 2019). However it is unclear as to how much this is a direct impact of the NLW (LPC, 2020b).

Similarly, there is a risk that progressive increases to the wage floor may increase incentives for employers to use self-employed workers – who are not entitled to the minimum wage – rather than employees. However, recent analysis by Resolution Foundation has found little evidence that the NLW has increased the use of self-employed workers.

Work intensification

The UK suffers from high levels of work intensification. The Skills and Employment Survey shows that there has been a steady increase in work intensity in recent years. Nearly one in three (31%) workers said that they had to work at very high speed for most or all of the time in the latest survey in 2017, up four percentage points on the last survey, and nearly

[12]The definition includes those on zero-hours contracts, in agency, casual and seasonal work, and low-paid self-employed

[13] Here we define a higher proportion of low paid works as having over 25% of workers earning less than £10.50 an hour

double the proportion (17%) who said the same in the first survey in 1992 (Green et al, 2019).

There is a risk that a higher minimum wage could contribute to work intensification. While some employers may seek to take the ‘high road’ to increasing productivity, for example through increasing investment in training or technology, or improving working practices, some may take the ‘low road’ of merely increasing work intensity, i.e. requiring that staff simply work harder.

There are some suggestions from our employer poll of a risk here. One in seven (15%) businesses said that they anticipated hiring fewer members of staff as a result of planned increases to the NLW, rising to 32% of businesses with a high proportion of low paid workers. This implies that workloads may increase for existing staff.

Non-pay benefits

Following the introduction of the NLW, there were some well-publicised examples of employers reducing non-pay benefits for employees, and this has been confirmed by subsequent research (Adascalitei, 2019). One in ten (10%) employers said that they had reduced or changed other staff benefits – such as bonuses, pension contributions, breaks or discounts – following the introduction of the National Living Wage.

Similarly, one in ten (10%) of businesses said they would look again at reducing or changing staff benefits, in response to further increases in the NLW, rising to 17% of businesses with high levels of low pay.

Progression opportunities

While a higher minimum wage could provide a further boost to hourly pay at the bottom of the income distribution, it may also create an additional challenge for progression in work. As we highlighted above, the increase in the wage floor has led to a far greater bunching workers at or near the wage floor.

Research commissioned by the LPC has shown that there is some evidence that the higher NLW has made it less likely for minimum wage workers to move into higher paying jobs. Some groups of minimum wage workers were found to be less likely to progress, including women, part time workers, and workers either with a history of unemployment or who had spent a long time on the minimum wage (Avram and Harkness, 2019b).

There is some evidence to suggest that a higher wage floor may lead to further bunching at the wage floor, and a reduction in the number of roles available at higher levels in some industries. Overall, 6% of businesses in our employer survey said that they would reduce or remove supervisory or managerial roles in response to further increases in the minimum wage, with this response being more common in low pay sectors such as hospitality (11%) and retail (12%).

On an individual level, lack of progression opportunities from minimum wage roles poses detriment to individuals who may feel unable to improve their standard of living or to gain fulfilment from developing professionally.

There has been an increasing drive from the Department for Work and Pensions in recent years to encourage in-work progression for those on low incomes, with claimants of in-work benefits on Universal Credit encouraged to increase their earnings through taking on extra work or being paid more. On one level, this focus on in-work progression demonstrates some welcome recognition of the difficulties many people experience in trying to move up from the wage floor. However, various studies[14] identify significant structural and individual barriers preventing in-work claimants from demonstrating progression through pay. Among these was the lack of opportunities for extra pay or hours in their local area, and, particularly among working parents, reluctance to spend less time caring for children and perception that the costs of childcare would offset any corresponding gains in income.

Situating the minimum wage in the Good Work agenda

In summary, while increases in the minimum wage could help drive further increases in pay at the bottom of the income distribution, this alone will not address other elements of job quality. Indeed, in the absence of wider action, there is a risk that rapid increases to the wage floor may compromise other elements of job quality.

Given these risks, minimum wage policy needs to be situated within the broader good work agenda. The LPC should continue to monitor and consider the impact of increases in the minimum wage not just on employment and incomes, but on wider aspects of job quality too. Government must ensure that **future increases to the minimum wage take account of the impact on other aspects of job quality, and sit within a wider strategy to improve job quality and support progression, particularly in low pay sectors.**

One way to move towards a culture of good work would be to take a more focused sectoral approach to boosting pay and conditions for selected key sectors. The Taylor Review into good work suggested that the LPC should expand its remit to work with employer and sector representatives to develop sector-specific codes of guidance that support job quality in low paying areas. There were reservations about extending the LPC's role in this way due to resources and strategic fit with its central function of calculating the minimum wage, and the UK Government decided not to proceed with this recommendation.

An alternative approach could involve government supporting the creation of **sectoral collective agreements in key areas of the labour market, to improve pay and conditions for workers, and ensure fair competition among employers**. Based on the same social partnership approach seen with the LPC, this could involve employers,

[14] See for example, Britain Thinks, 2018, Work and Pensions Committee, 2016, and Child Poverty Action Group, 2016,

workers, and independent experts. They would have the power to set binding minimum standards to apply across the relevant sector, including minimum pay rates for certain roles which go beyond the statutory minimum wage, and training standards. These bodies should be responsible both for boosting pay and productivity, and improving wider aspects of good work. These bodies could also provide an opportunity for engagement between government and employers in the sectors in need of support to adapt to higher minimum wage costs.

These sectoral collective agreements could be applied to all employers in the given sector. This could be done through the process of 'administrative extensions', whereby if an agreement receives the support of enough employers and workers in a sector, it can be made a legal requirement of all employers in that sector. This approach is used in most advanced economies, and it can ensure fair competition between employers (OECD 2019).

This sectoral approach stands to have the greatest impact in areas of the labour market which are characterised by low pay and poor job quality. It should start with social care, a sector where the workers have been on the front line of the pandemic. This sector has a large proportion of low paid workers, as well as wider issues around job quality, including high levels of insecurity and zero hours contracts. The workforce both needs and deserves a pay rise as well as wider improvements in working conditions. The Welsh and Scottish Governments have already taken steps in this direction. The Welsh Government has established a Social Care Forum, and the Scottish Government is examining proposals for a sector level body for care in Scotland. The UK Government should now do similar for social care in England.

Skills and training

The UK has long suffered from low and unequal employer investment in skills.

The Employer Skills Survey shows there has been a long term decline both in the proportion of employers providing training for their workforce, and investment in training per employee. The latest wave of the survey carried out in 2019 found that just six in ten (61%) employers had provided any training for their workforce in the last 12 months, down five percentage points on the previous survey in 2017. Both the proportion of workers who received training and the average amount invested in training saw a further decline (DfE, 2020). Employer investment in training in the UK also appears to be low compared to other advanced economies. Data from Eurostat shows that investment in continuing vocational training in the UK is half the EU average (Eurostat, 2020).

In addition to suffering from low employer investment in skills, what investment we do see is distributed unevenly across the workforce, with the workers who could benefit most from access to upskilling opportunities being the least likely to take part in training. Workers with degrees or equivalent qualifications are four times as likely (32.4%) to have taken part in work related training in the last three months than those with no qualifications (8.5%) (ONS, 2019). The apprenticeship levy, which has sought to stimulate employer investment in skills, appears to have contributed to a significant increase in higher level apprenticeships – many of which have gone to existing employees who are already well-qualified – whilst the number of apprenticeships at levels 2 and 3 have declined significantly (L&W, 2019).

Theoretically, one of the positive ways in which employers may respond to a higher wage floor is by increasing investment in training in order to boost workforce skills and productivity. However, while our employer survey found that while 9% of businesses said that they would increase workforce training in order to make their organisation more productive, 6% said that they would cut their training budget.

Alongside increasing the minimum wage, government should seek to **boost employer investment in skills, and tackle the inequalities in the distribution of training**. This could involve a tax credit to incentivise investment in training for workers with lower levels of qualification (Education Select Committee 2021), or changes to the rules around the use of apprenticeship levy funds, in order to focus investment on workers with lower levels of qualification (L&W, 2019). In addition to adjusting the financial incentives for investment in training, sectoral collective agreements could establish minimum training requirements for certain roles in particular sectors.

Enforcement and compliance

A higher minimum wage will need to go alongside more consistent and robust communication and enforcement to ensure workers receive the pay to which they are entitled, and to ensure employers complying with the law are not undercut.

The current enforcement system for the minimum wage is insufficient. Too few employers who do underpay the minimum wage are identified, and where they are, the sanctions against them are relatively minor. The UK Government's *Labour Market Enforcement Strategy 2018 to 2019* highlighted that the average employer could expect an inspection on National Minimum Wage/National Living Wage enforcement around once every 500 years, rising to once in 200 years in low-paid sectors such as accommodation and food services (BEIS and Home Office, 2018). Firms that are found to be underpaying are required to repay owed wages, with serious offences potentially facing criminal prosecution and unlimited fines. However, in practice, employers are rarely subject to serious losses when found to have breached rules. Formal penalties for failing to pay the NLW and NMW are rarely enforced to the fullest extent, with HMRC also struggling to consistently detect breaches. Of thousands of employers found to have broken the law, only 14 have been criminally prosecuted, with an average fine of less than £3,000 (Resolution Foundation, 2020). This means that for unscrupulous employers, the rational calculation of the risk of being caught, and the costs they would face if they are, are not sufficient to ensure they abide by the law.

There is evidence to suggest that the increase in the wage floor through the introduction of the NLW has led to more workers being illegally underpaid the minimum wage (Resolution Foundation, 2020). It is therefore likely that in the absence of more robust enforcement and greater sanctions against employers that illegally underpay the minimum wage, further significant increases to the minimum wage in the coming years are likely to lead to higher levels of underpayment of the minimum wage.

The government should make **tackling underpayment of the minimum wage a key focus in its upcoming Employment Bill**. The single enforcement body (SEB) which will be established as part of the Bill, should focus on detecting and deterring underpayment of the minimum wage alongside other violations of employment law. Government should ensure that this body is sufficiently resourced – including through using the receipts of fines enforced on employers found to have underpaid the minimum wage. The sanctions against employers found to have underpaid their workers should be strengthened, with significantly larger penalties for those to have knowingly underpaid their workers, and those who have repeatedly underpaid their workers. The SEB should work closely with trade unions – particularly in low pay sectors – and with local government, to utilise intelligence and inform enforcement.

More robust enforcement of the minimum wage should be accompanied by efforts to simplify the minimum wage, and promote worker understanding of their entitlements, and employer understanding of their responsibilities.

As we highlighted above, some underpayment of the minimum wage is due to employer misunderstanding, which is related to the complexity of the current system. Government should consider abolishing the apprentice minimum wage and reducing age gradation in order to simplify the system. This could reduce the number of minimum wages from five at present, to just two; the National Living Wage for workers aged 21 and over, and the Youth Minimum Wage for those aged 20 and under.

Alongside this, government should launch a well-resourced 'know your rights' and 'know your responsibilities' campaign. Working both with trade unions, employer organisations and other organisations such as Acas, government should seek to boost both worker and employer understanding of the minimum wage.

Social security

While a higher minimum wage could help significantly reduce low pay, it is not enough on its own to reduce in-work poverty. As we set out above, the significant increases we have seen to the minimum wage over the last five years have helped reduce low pay, but this has done little to tackle in-work poverty. The social security system also plays a crucial role in reducing in-work poverty.

Indeed in the last five years, increases in the wage floor coincided with cuts to in-work benefits. In the same budget which announced the National Living Wage in 2015, the then Chancellor George Osborne set out plans for a four year benefit freeze, which has significantly reduced the value of in-work benefits. This has meant that in the years since, many low paid workers lost more in benefit income than they gained in paid income. This contributed to a significant rise in in-work poverty, particularly among working parents and single parents, who often work part time and who tend to face high household cost. As

Joseph Rowntree Foundation have argued, this shows that increases to the wage floor – while welcome – are no substitute for social security support (JRF, 2020).

Our focus groups with low paid workers also highlighted the impact of social security on income, with participants feeling that any increase in earnings as a result of working additional hours or securing a pay rise would in large part be offset by a drop in their Universal Credit payment, leaving them little better off.

Alongside increasing the minimum wage, government must ensure that the **social security system provides people with the support they need to live free from poverty**. Most pressingly, government should retain the £20 uplift to Universal Credit that is due to expire at the end of March.

We also recommend that any continued focus on in-work progression within the social security system must be accompanied by government developing a much stronger evidence base of what inhibits and enables progression at work, and the public policy levers which exist to influence it among low paid workers. The Taylor Review recommended: '*Building on the (DWP in-work progression) trials to date, Government should work with external providers to determine what really works in supporting individuals to obtain better quality – and not just more – work. This should not be limited to increasing earnings to a level of self-sufficiency in Universal Credit and should take particular account of the effect of increases in the National Living Wage.'* Following on from DWP in-work progression trials, the DWP has established an In-work Progression Commission. We would urge the DWP to take on this recommendation from the Taylor Review, and to ensure that the views of workers on or near the wage floor are engaged in developing their evidence base, as a precondition for developing a service that is responsive and effective.

Conclusion

The minimum wage has been an effective policy which has made a difference for low income workers.

The introduction of the NMW helped to tackle extreme low pay, with a minimal negative impact on employment levels. The recent increases to the wage floor through the introduction of the NLW has helped to tackle low pay and to boost incomes for the bottom third of the income scale, again without a significant negative impact on employment. International evidence similarly suggests that minimum wages can increase earnings for low paid workers, with a minimal impact on jobs. The UK's approach to determining the appropriate level for the minimum wage, guided by the Low Pay Commission social partnership model, is seen internationally as good practice.

However, while the minimum wage has had positive impacts, there are significant limitations in what minimum wage policy alone can achieve. While the minimum wage has helped tackle low pay, it has had a minimal impact on poverty. This is partly because many low paid workers who have benefitted from an increase in the minimum wage, do not live in a household that is in poverty. In this sense the minimum age is not an effective or targeted anti-poverty tool. However, this is also due to wider policy changes implemented at the same time as the increase in the wage floor. Many of the households who benefitted from a boost in pay due to increases in the minimum wage, lost more in income as a result of the freeze on in work benefits.

While there are significant additional challenges to consider when examining the future of the minimum wage, with the COVID-19 pandemic and the uncertainty around the new post-Brexit trading arrangements, it is important 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. As part of this, **the government should maintain their commitment to the NLW reaching two thirds of median income by 2024**, **and should be guided in its path to achieving this by the Low Pay Commission.**

The pandemic makes delivering the government's commitment far more challenging. The sectors that have seen the biggest impact on employment, also tend to be sectors with more widespread low pay, and where a greater proportion of employers are concerned about a higher wage floor. Given this, government should consider a **temporary reduction or rebalancing of employer national insurance contributions (NICs)** in order to support employers to adapt and minimise job losses as it delivers on its planned increase to the wage floor. Government should also consider **additional and tailored support to the sectors most impacted by future rises** in the wage floor.

While there remains a strong case for age gradation in the wage floor in order to avoid a negative impact on youth employment. Government should **expand the scope of the NLW to cover workers aged 21 and over, and simplify the system, by introducing a Youth Minimum Wage** and abolishing both the apprentice minimum wage and the various current age rates. Government should ensure that it minimises the gap between the Youth Minimum Wage and the National Living Wage, to avoid perverse incentives for employers, and to reduce low pay among younger workers.

The minimum wage should continue to be set nationally. However, given that a single minimum wage rate does not take into account the cost of living in different parts of the UK, we recommend **that further research is undertaken to consider the challenges, opportunities of and feasibility of differentiated subnational or regional minimum wages** where local nations or regions could set a higher minimum wage, in consultation with the LPC.

With a higher wage floor, there may be a greater risk of illegal underpayment of the minimum wage. Government must **use the upcoming Employment Bill to both improve enforcement and increase sanctions against employers for underpayment**, to remove the potential incentive for underpayment, and ensure that employers that abide by the law are not undercut by those that don't. This should be accompanied by a well-resourced 'know your rights' and 'know your responsibilities' campaign.

Beyond the economy-wide approach of the minimum wage, the government should also take a more focused sectoral approach to boosting pay and conditions for selected key sectors characterised by low pay and poor job quality. This could involve **supporting the creation of sectoral collective agreements which** would bring together employers, workers, and independent experts. These bodies would be responsible both for agreeing common basic standards around both pay and job quality, which can be applied across the sector-such as pay progression rates and training standards. This could start with social care, before moving on to other large low paying sectors.

Alongside increasing the minimum wage, government should seek to **boost employer investment in skills, and tackle the inequalities in the distribution of training**.

While further increases in the wage floor could help tackle low pay, this alone will do little to reduce in-work poverty. In our focus groups with low paid workers, participants described how any increase in earnings as a result of working additional hours or securing a pay rise would in large part be offset by a drop in their Universal Credit payment, leaving them little better off. Alongside increasing the minimum wage, government must ensure that the **social security system provides people with the support they need to live free from poverty**, including through retaining the £20 uplift to Universal Credit that is due to expire at the end of March, and **developing a greater understanding of how public policy can support progression for workers on the wage floor.**

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