

*More than a minimum:*  
***Low pay and the National Minimum  
Wage***

*Conor D'Arcy and James Plunkett*

*11 June 2014*

- **Assessing the minimum wage** – what it has and hasn't achieved
- **Reforming the minimum wage** – the recommendations

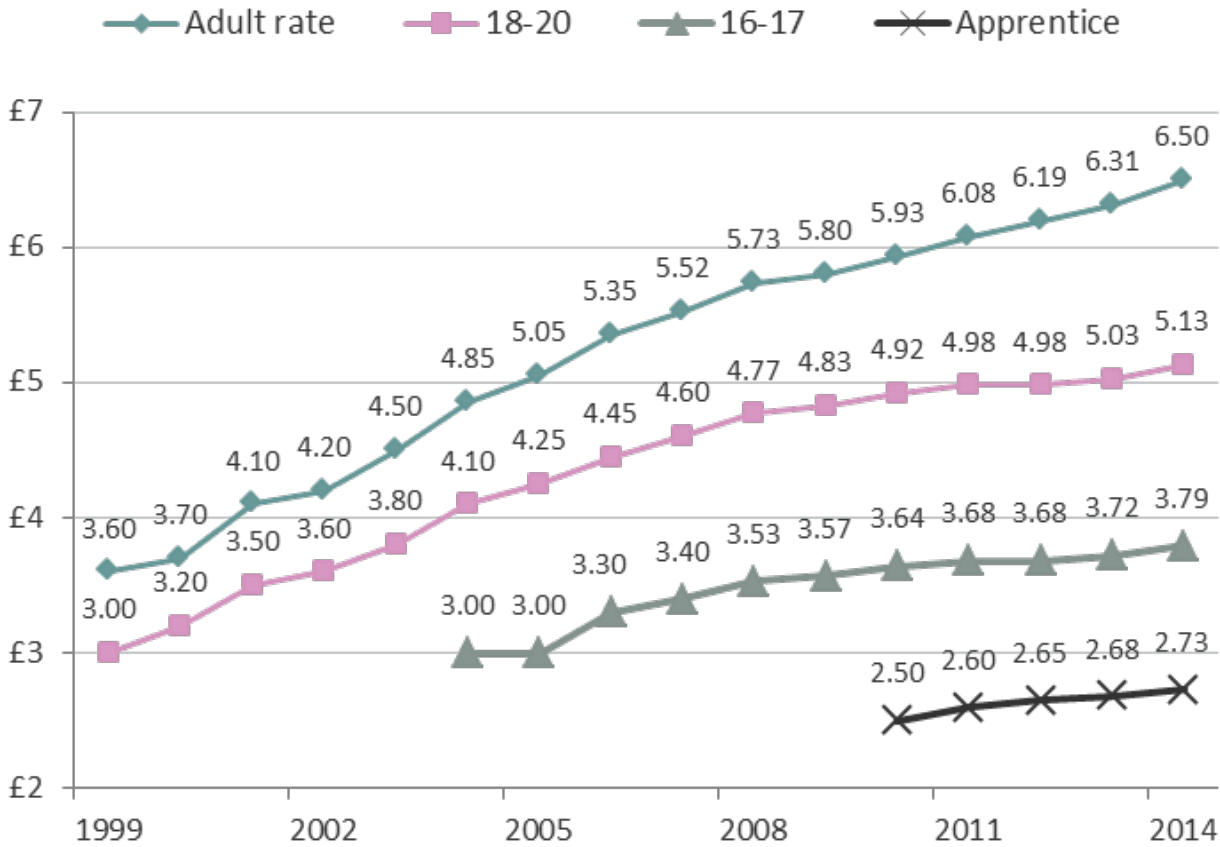
# The National Minimum Wage and its architecture

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- The National Minimum Wage (NMW) was introduced in 1999
  - Controversial, with predictions of up to 2m job losses and inflation
- The rate is recommended annually by the Low Pay Commission
  - An independent nine-member panel made up of employer and employee representatives, and academics

# The minimum wage was eased in and then increased quickly before slowing down

Current prices



# The settlement was perfectly designed for the late 1990s and overcame initial concerns

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- The LPC depoliticised the process of setting the NMW
- It secured the buy-in of the businesses and unions through taking a social partnership approach
- Its process for annually updating the NMW gave the LPC flexibility to adapt to changing economic times
- It has helped to establish a strong and objective body of research

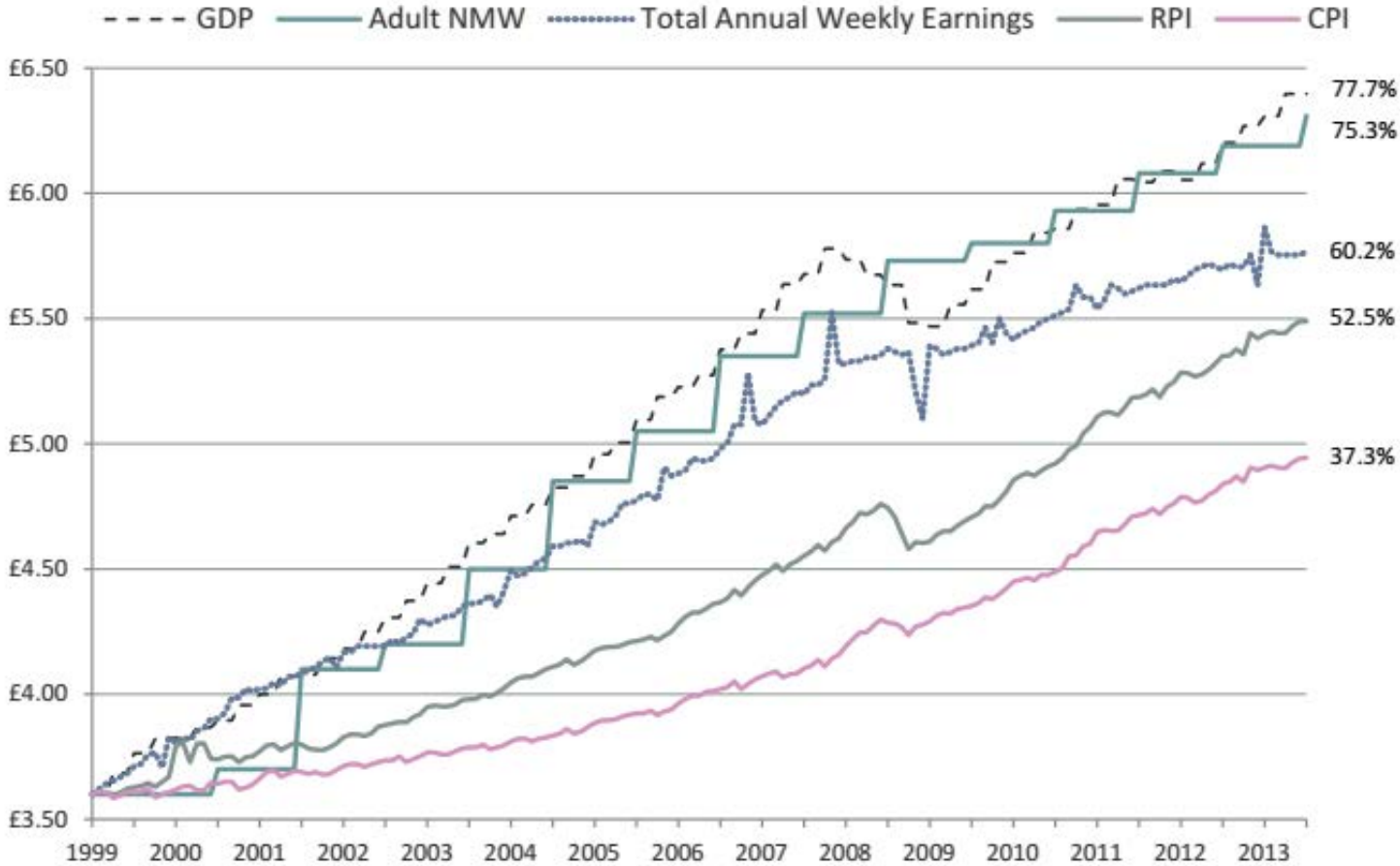
# Debates about the minimum wage's impact on earnings and employment are now largely settled

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- No general impact on employment or unemployment
- Large positive effects on the earnings of the lowest paid workers

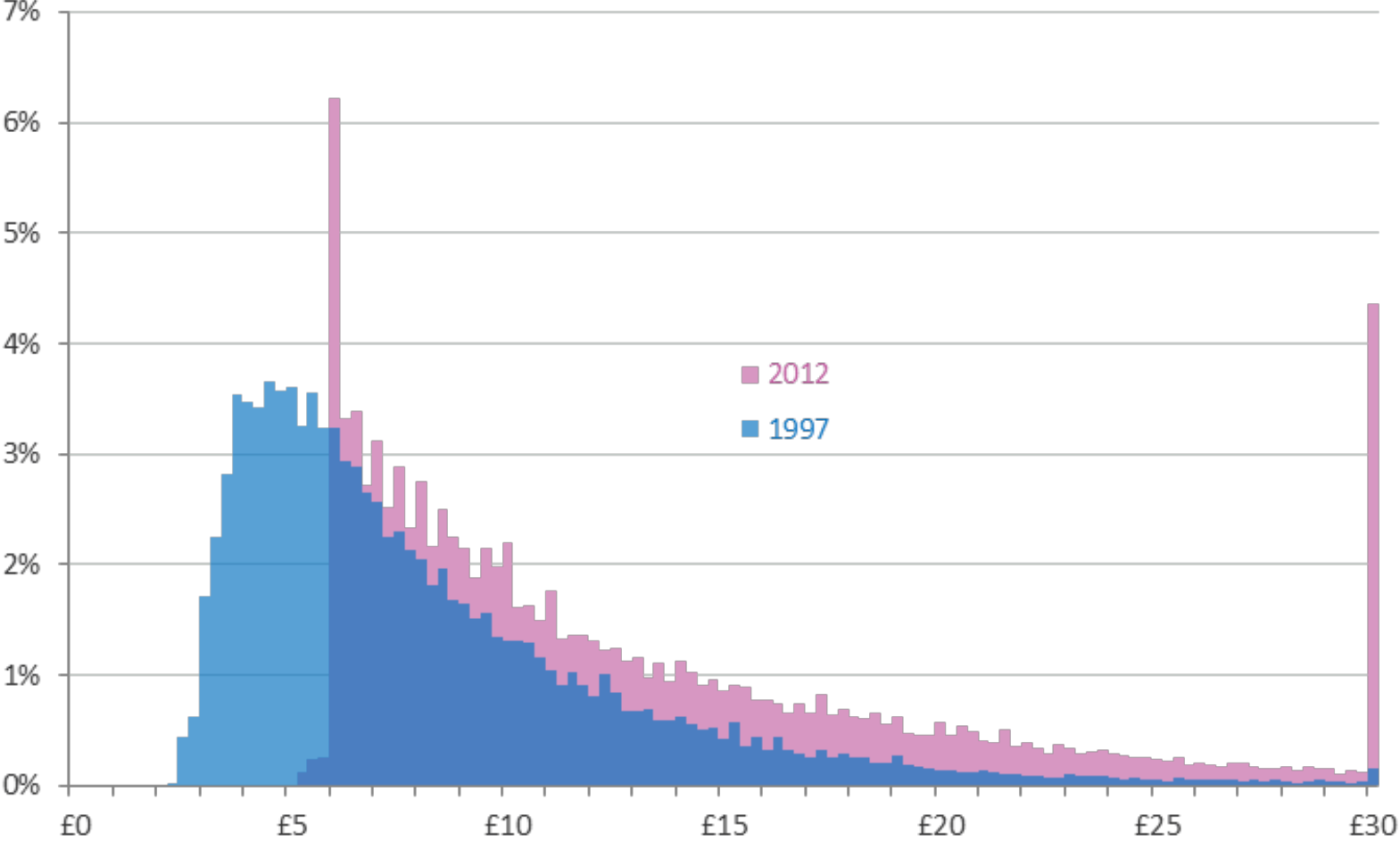
# The NMW has grown at a faster rate than average earnings and inflation

£ per hour and equivalent growth in GDP, Total Average Weekly Earnings, RPI and CPI



# Extreme low pay has now been all but eliminated

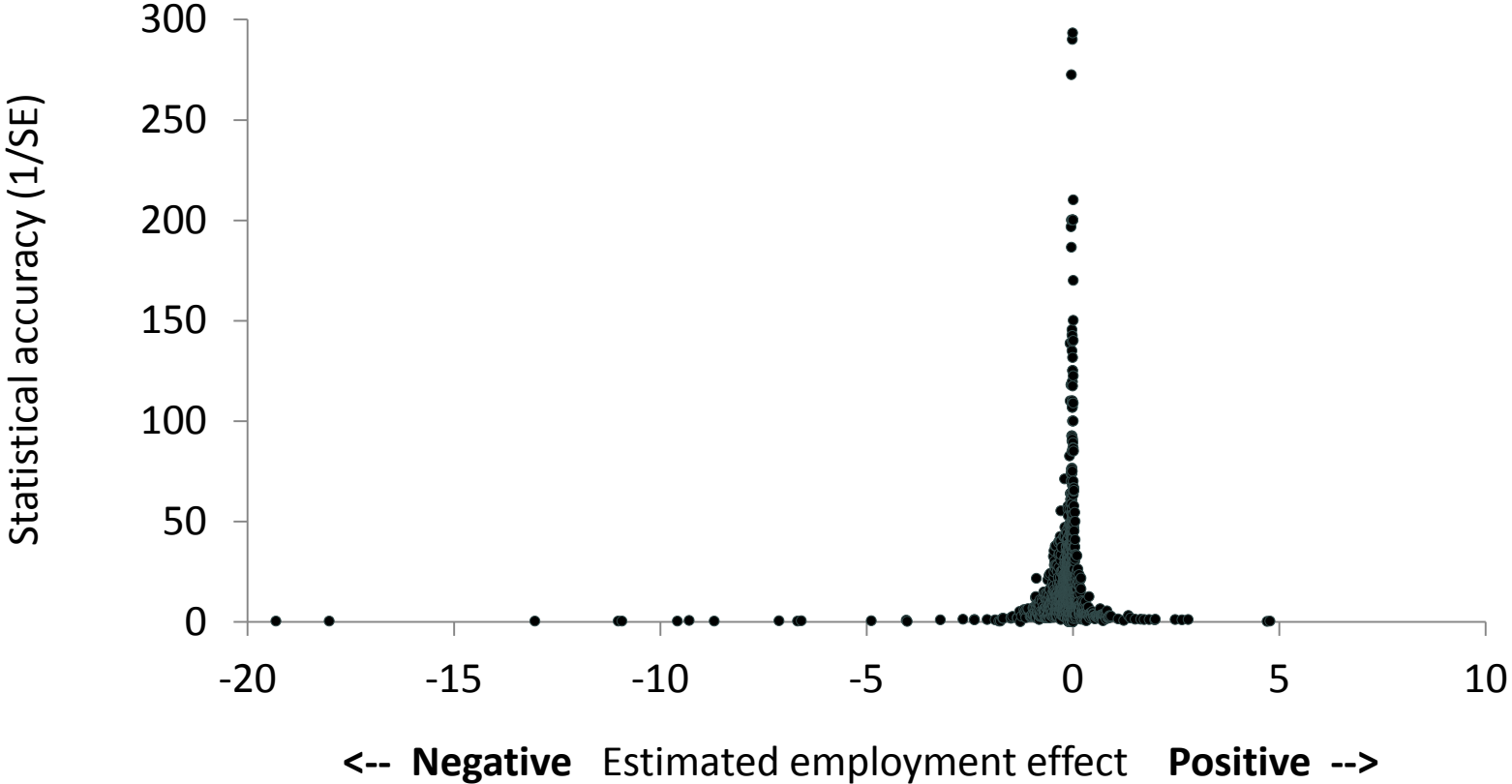
Hourly pay distribution: 1997 and 2012





# While some studies show unemployment effects, the balance of academic opinion is clear

**Effect of the US minimum wage on employment**  
*1,500 estimates from 64 academic studies*



# But some parts of the jobs market are vulnerable –any single national rate must therefore be cautious

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- While no overall effect on employment has been found in localities, there is some weak evidence of an effect on:
  - Employment *growth* in very **low paid regions**
  - Reduced hours for **young people** after 2008
  - Reduced job retention among **female part-time workers**
  - Employment in very low paying **care homes**
- All weak effects, some not replicated, but gives reason for caution
- The minimum wage is an ill-fitting garment

# The impact - why didn't the NMW cause unemployment?

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- **Reducing pay gaps** between low paid and better paid workers
  - **Cutting non-wage benefits and hours**, though not enough to offset the upsides
  - **Pushing up prices** (slightly) in sectors like take-away food, canteens and hotels
  - **Squeezing profits**, though with no identifiable effect on the rate of business failure
  - **Boosting productivity** in low paying sectors, particularly in large firms
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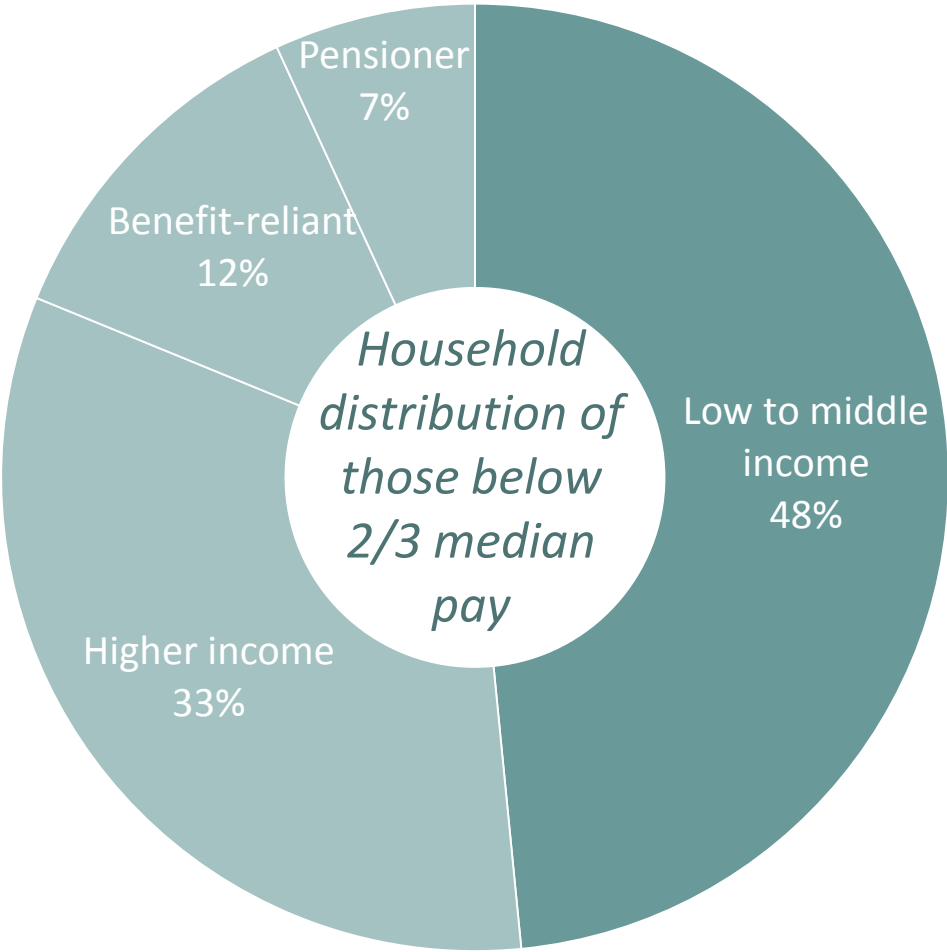
# The NMW hasn't reduced wider low pay however (and didn't aim to do so)

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- One-in-five employees in the UK are low paid including:
    - 1-in-4 **women**
    - 3-in-4 of those aged **16-20**
    - 1-in-3 of those aged **21-25** and those aged **66+**
    - 2-in-5 of those working on a **part-time** basis
    - 1-in-3 of those working on a **temporary** or casual basis
    - More than half of those in **elementary** occupations or **sales & customer services**
    - 2-in-3 of those working in the **hotels & restaurants** sector
    - 2-in-5 of those working in the **wholesale & retail** sector
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# Low paid spread across different households but one in five LMIs rely solely on low paid earners

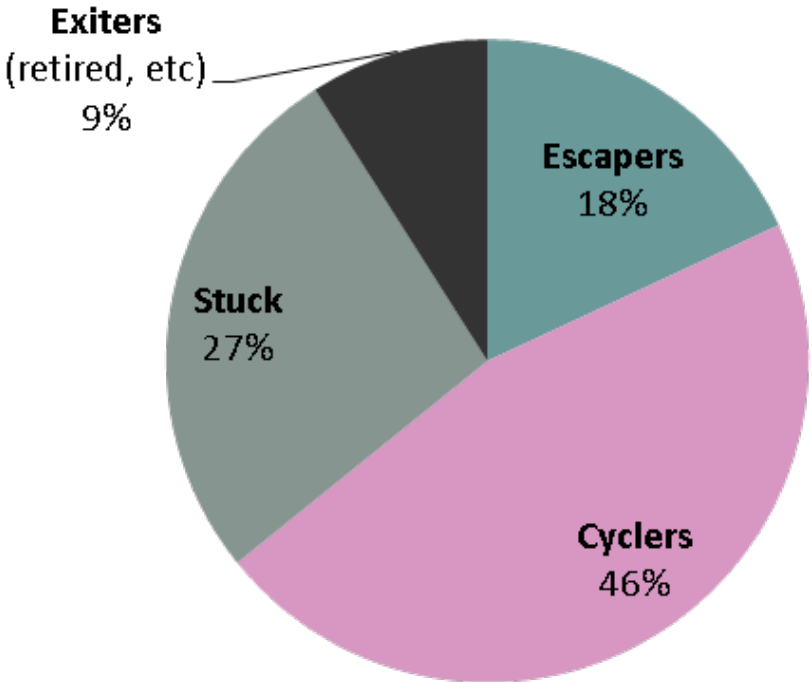
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# For most, low pay doesn't provide a first step on the ladder

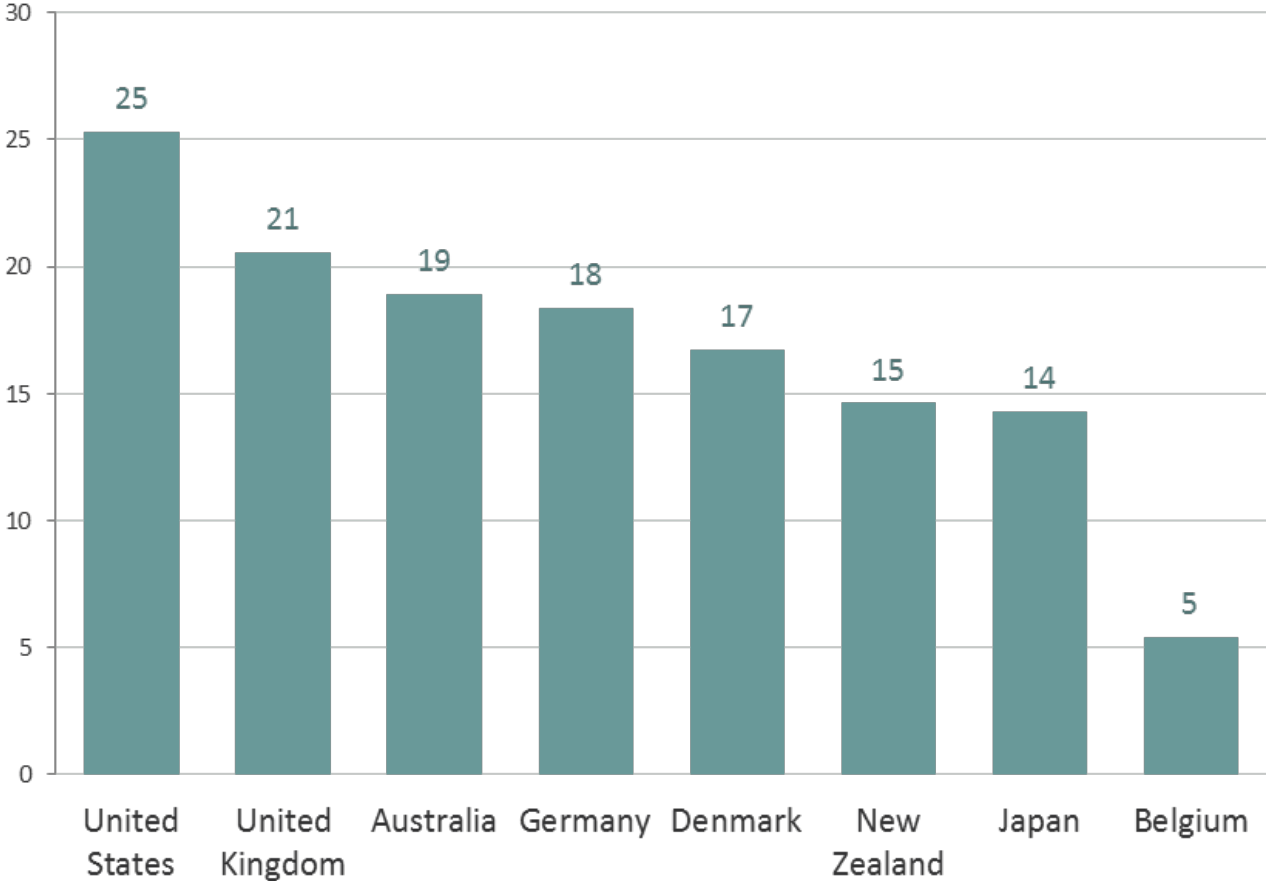
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*Proportion of all low paid employees in 2002*



# While some level of low pay is inevitable, the share of the workforce who are low paid varies considerably

*Percentage of full-time workers earning below two-thirds of the median wage*



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*The Resolution Foundation*  
*review of*  
*the future of the National*  
*Minimum Wage and Low Pay*  
*Commission*



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- **Professor Sir George Bain (CHAIR)** – founding Chair of the Low Pay Commission and former President and Vice-Chancellor of Queen’s University Belfast
  - **Professor Paul Gregg** – Professor of Economic and Social Policy and Director of the Centre for Analysis and Social Policy, University of Bath
  - **Professor Alan Manning** – Professor of Economics and former Head of the Economics Department, London School of Economics
  - **Dr Abigail McKnight** – Senior Research Fellow at the Centre for Analysis of Social Exclusion (CASE) at the London School of Economics
  - **Professor Karen Mumford** – Professor of Economics at the University of York and Chair of the Royal Economic Society Women's Committee
  - **Dr John Philpott** - Director, The Jobs Economist consultancy
  - **James Plunkett** – Director of Policy and Development, Resolution Foundation
  - **Nicola Smith** – Head of Economic and Social Affairs Department, Trades Union Congress
  - **Tony Wilson** – Director of Policy, Centre for Economic and Social Inclusion

# The minimum wage has been highly successful—but it is clearly a settlement designed for the late 1990s

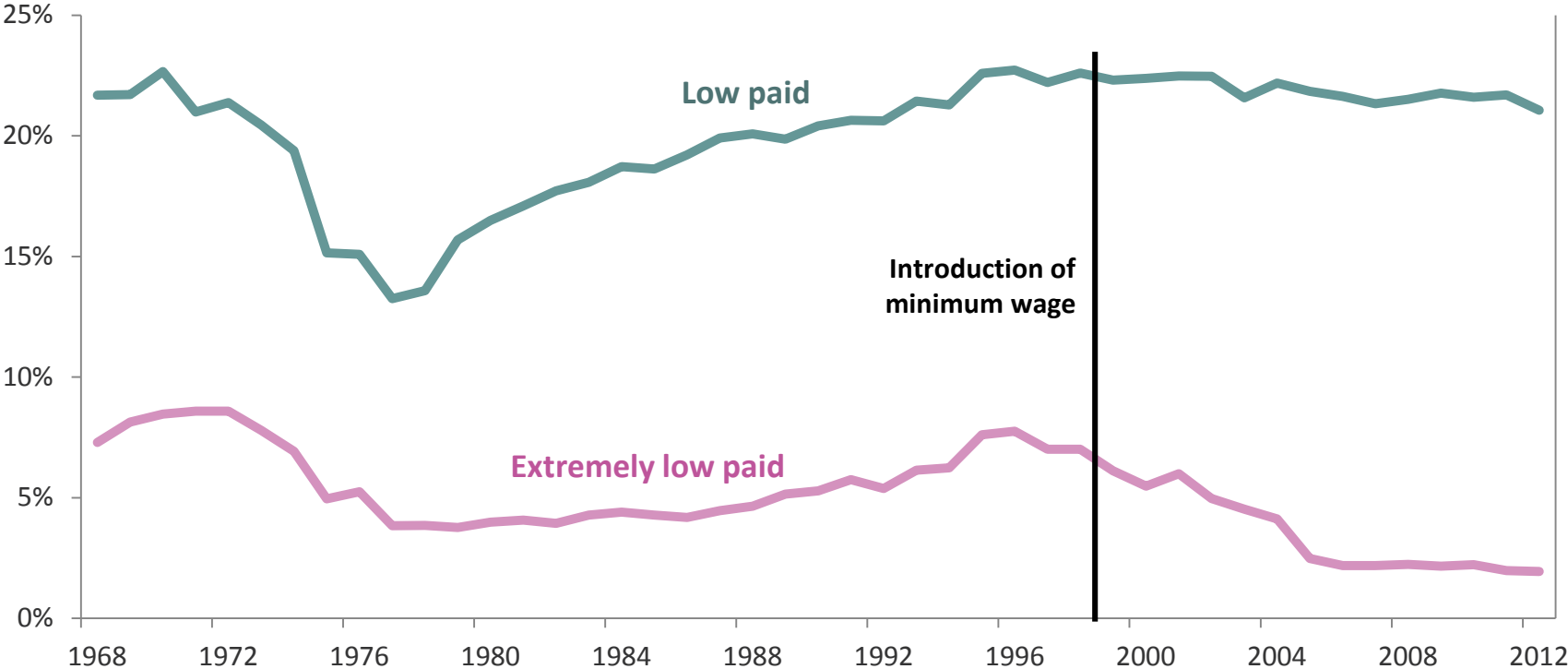
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- **Narrow** and focused – set the UK’s first minimum wage with little evidence
- **Short-term** and cautious – taking one step at a time, not looking too far ahead
- **Passive** – taking a hands-off approach – the minimum wage plus a penny

# Narrow: Extreme low pay has collapsed while low pay more generally remains high

## Long-term trends in low pay and extreme low pay

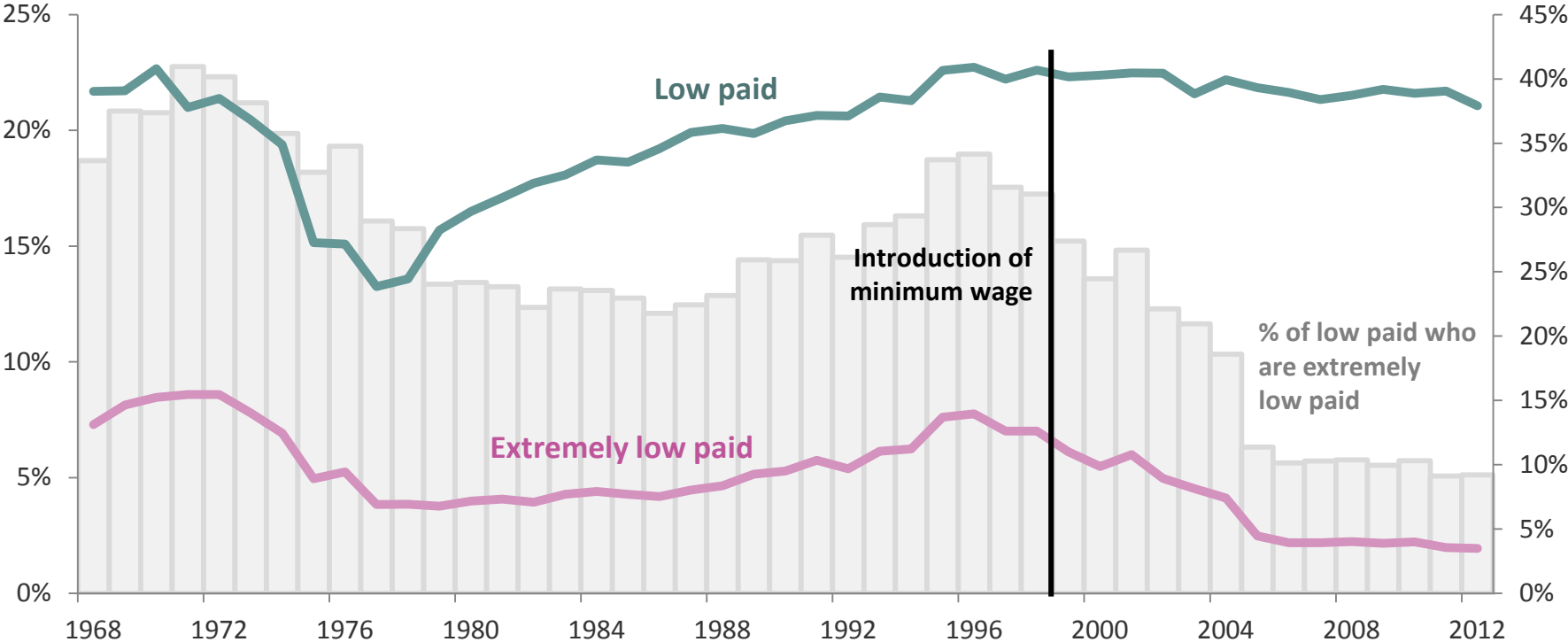
Percentage of all employees below two thirds and half of median pay, 1968-2011



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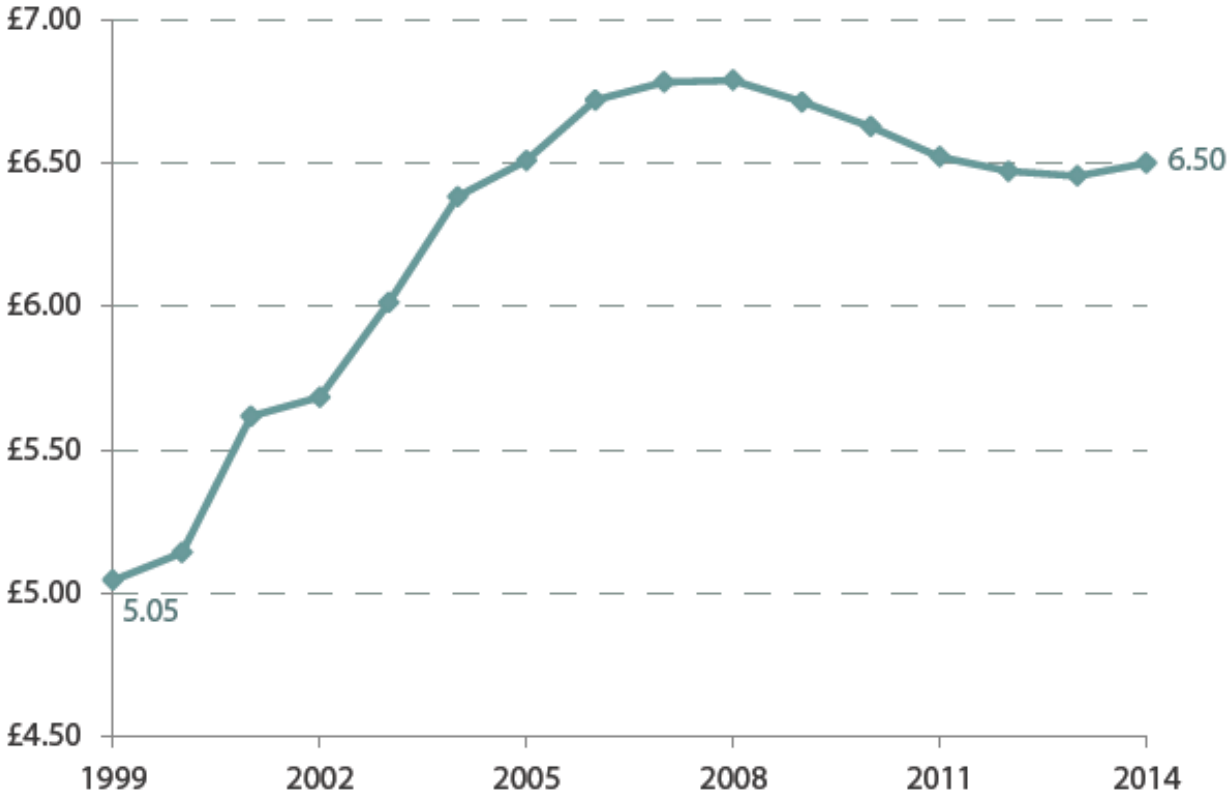
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# Short-term: The lack of direction mattered less in the early years, now there's reason to think it matters more

## The path of the minimum wage over time

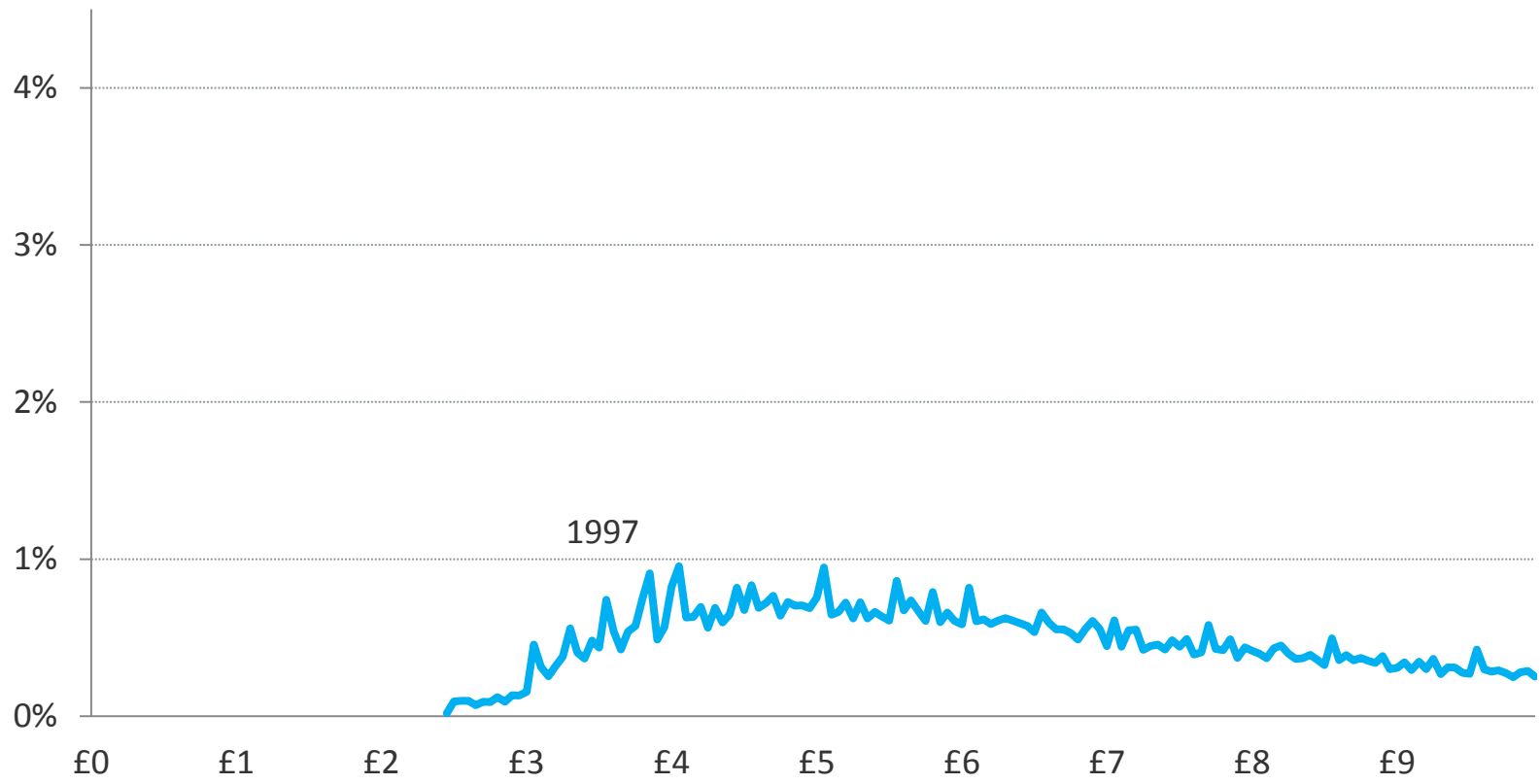
*£ per hour, constant prices, adjusted for CPI*



# Passive: The spike at the NMW is larger than expected—and it's growing. Many employers face little pressure to go further

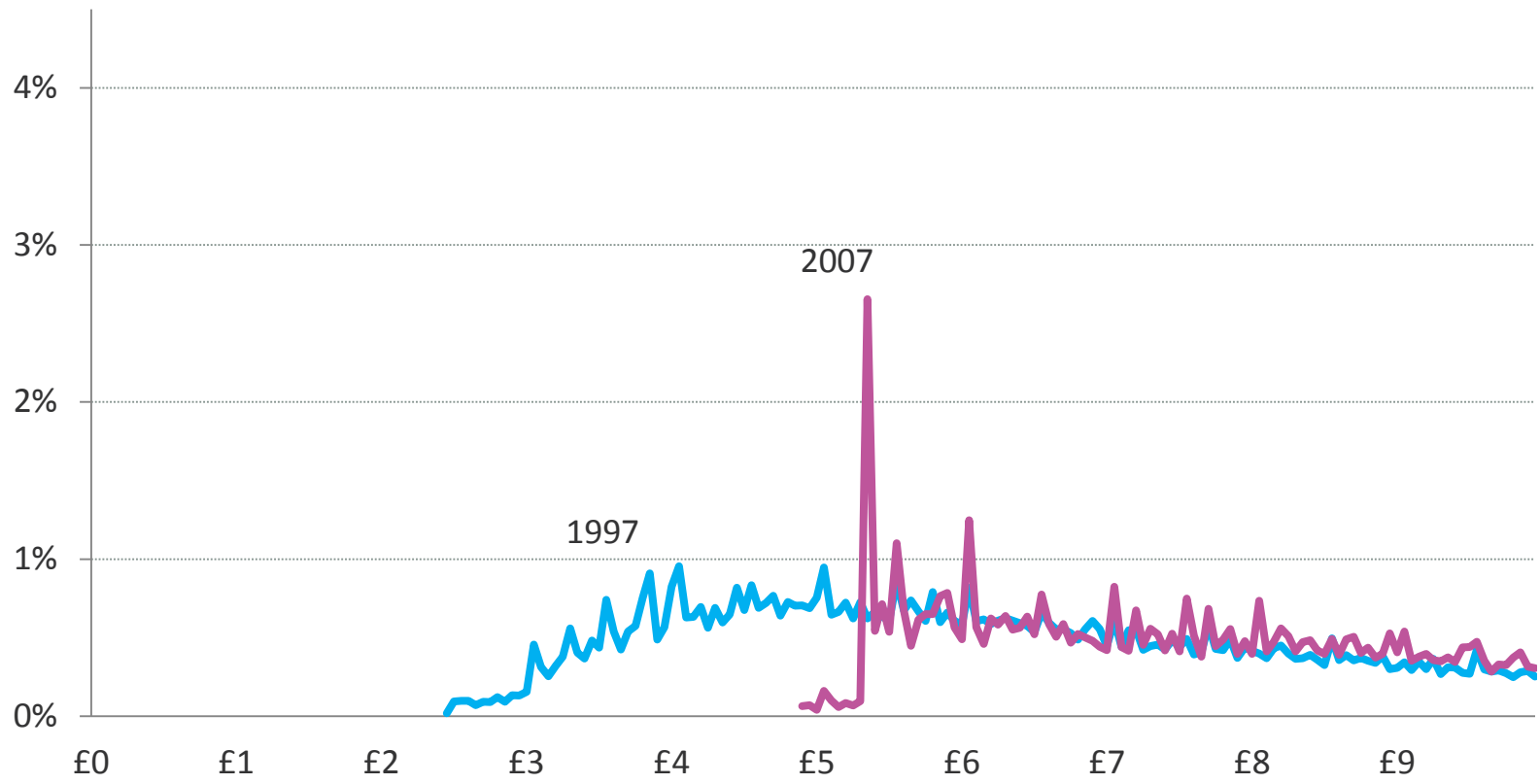
## The growing spike at the minimum wage

Percentage of employees by 5 pence pay bands



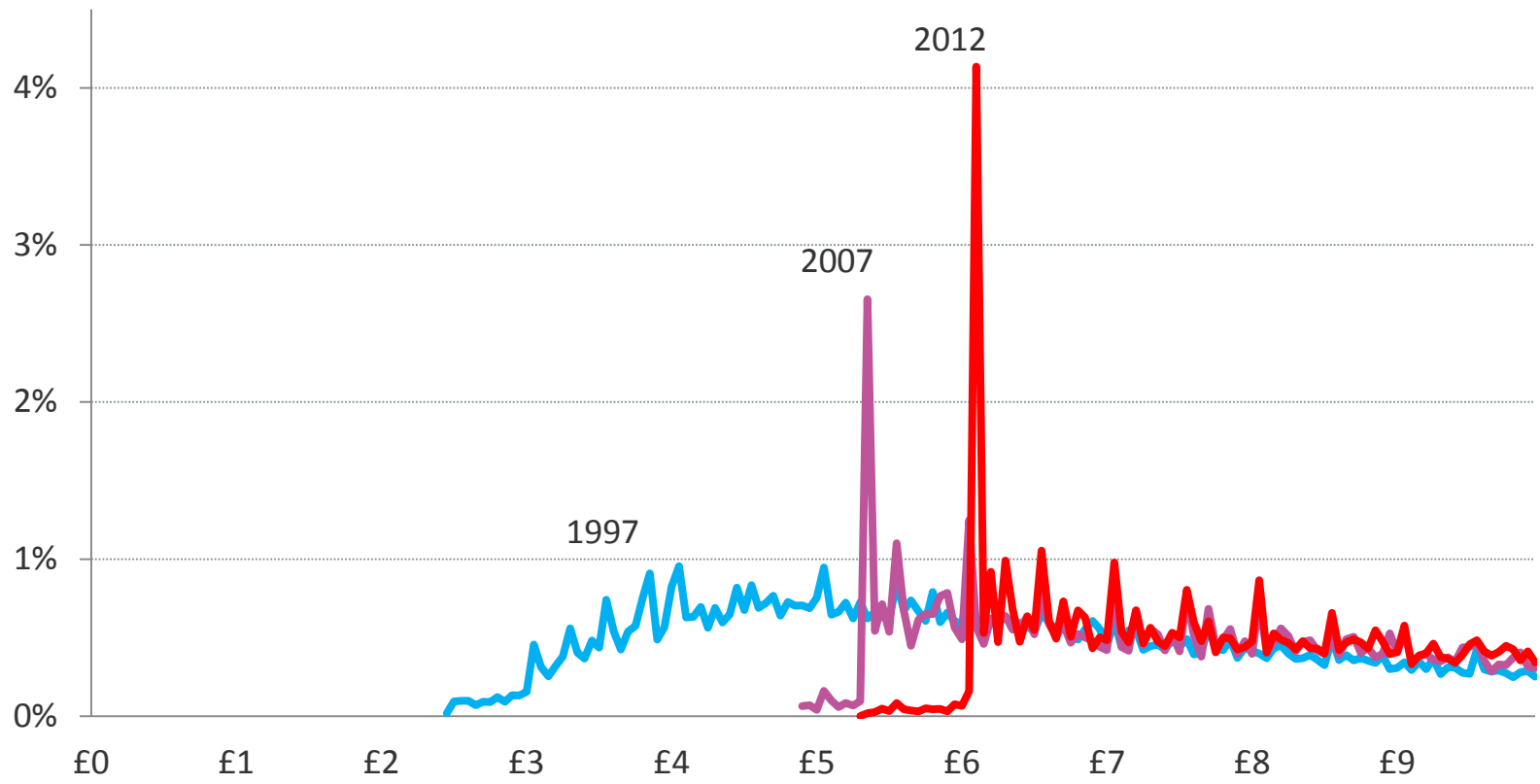
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**The growing spike at the minimum wage**  
*Percentage of employees by 5 pence pay bands*



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# Our recommendations strengthen these three weaknesses—but **crucially retain the core of the 1999 settlement**

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**A single legal National Minimum Wage recommended from year to year by the independent Low Pay Commission**

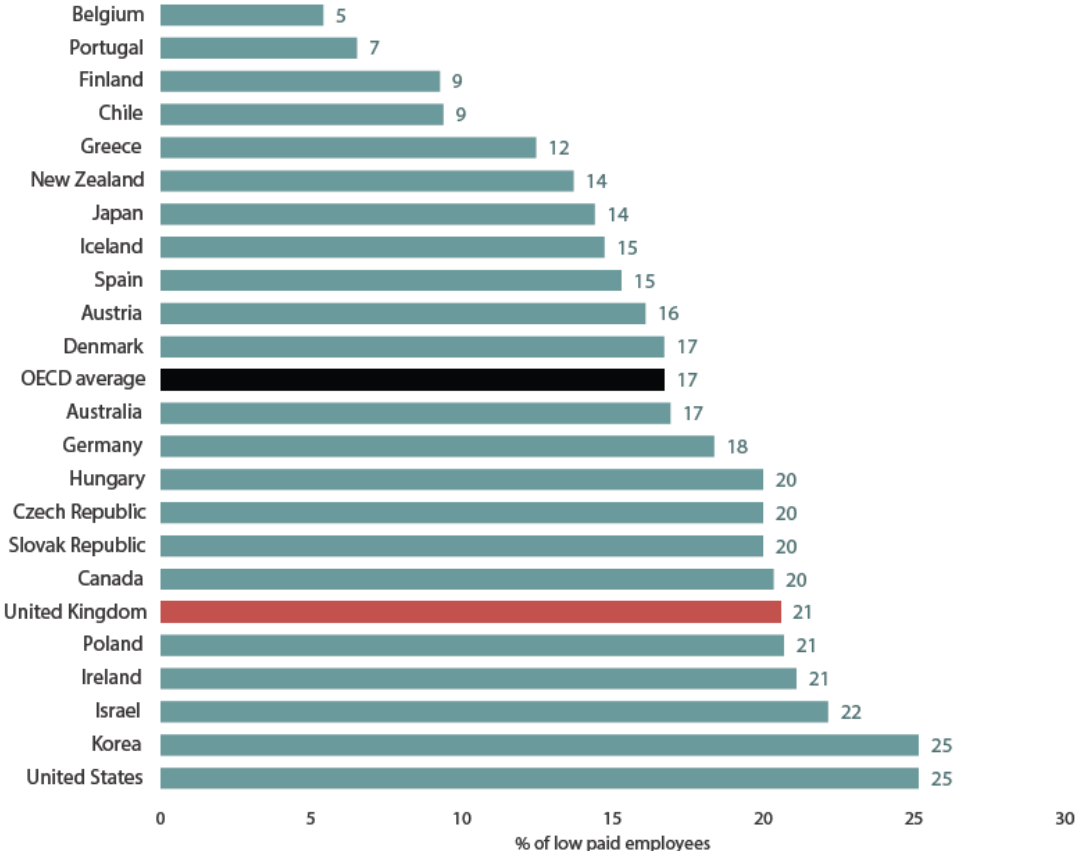
- **A broader approach**
    - Tackling low pay a clear ambition of economic policy
    - The LPC a powerful OBR-style low pay watchdog
  - **A more far-sighted approach**
    - Giving business more clarity
    - Balancing short-term flexibility with medium-term ambition
  - **A more assertive approach**
    - Noting sectors that could pay more
    - Publishing a reference rate for London
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- **A broader approach**
  - **A more far-sighted approach**
  - **A more assertive approach**

# Broader: Tackling low pay should be a clear objective of economic policy, backed by a powerful low pay watchdog

## Low pay across OECD countries

*Percentage of full-time workers earning below two-thirds of the median wage*



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- **A broader approach**
  - **A more far-sighted approach**
  - **A more assertive approach**

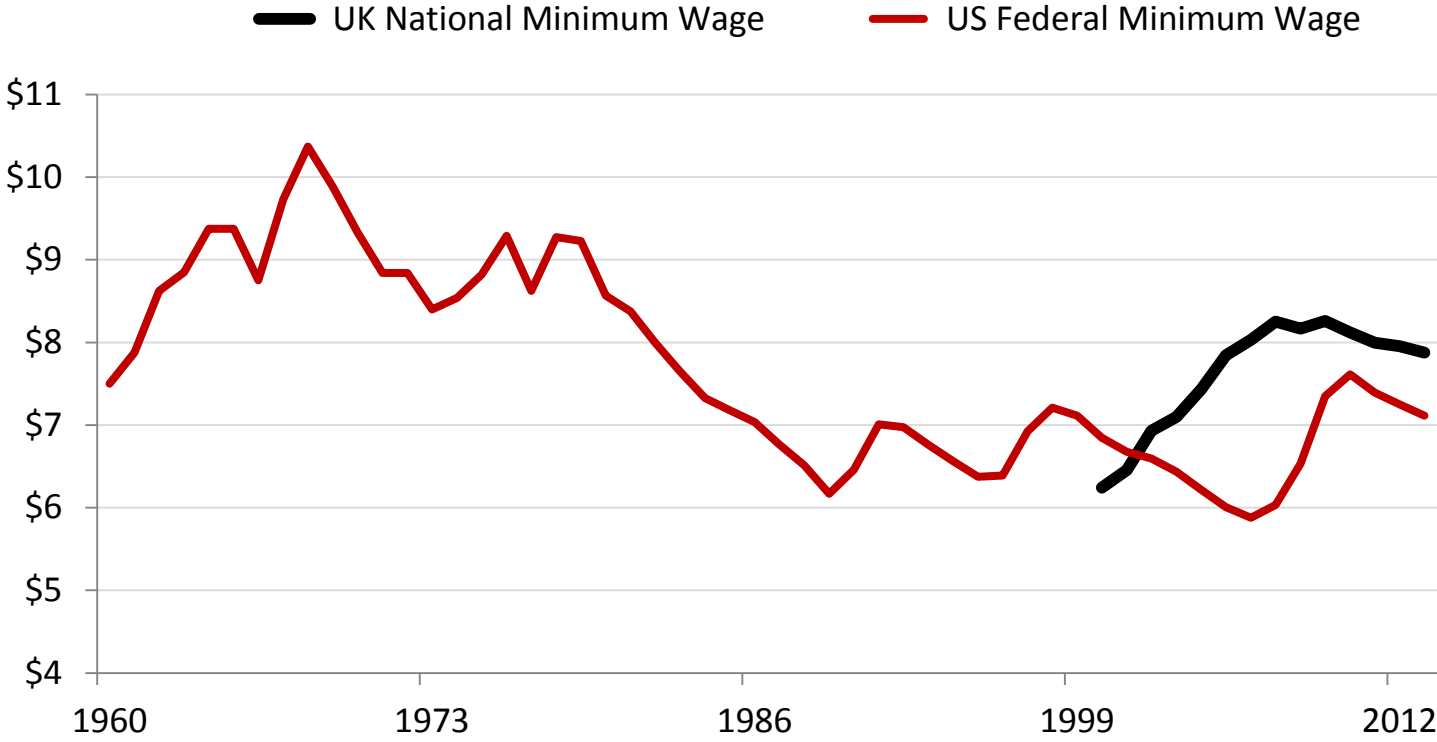
## **More far-sighted:** The minimum wage should strike a better balance between flexibility and medium-term ambition.

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- **On the one hand, it's vital that the minimum wage...**
  - Remain **responsive** to labour market conditions
  - Stay **evidence-based** and **depoliticised**
- **On the other hand, the policy needs a sense of direction**
  - Employers have no sense of where we are going
  - Government's approach is **passive** – it describes the labour market as it is today, rather than trying to get somewhere different

# More far-sighted: But the UK's approach is carefully calibrated—we really don't want to be the US...

## The minimum wage in the UK and America *Real terms, US\$PPP*



Source: Resolution Foundation analysis, OECD data

# More far-sighted: But the UK's approach is carefully calibrated—we really don't want to be the US...or France!

The path of the UK minimum wage had it been linked to inflation



# More far-sighted: We suggest a two-pronged approach—more ambition from government, more support from LPC

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## 1. Government sets out ambitions on the minimum wage

- Proportion of median earnings
- Medium-term horizon, e.g. five years
- 60% a reasonable lodestar for what can and cannot be achieved
- An expression of intent...

## 2. Low Pay Commission is evidence-based but more pro-active

- Recommends rate that's possible from year to year
- Notes the gap with the government's ambition
- Points out blockages and advises on policy to support higher rate



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- **A broader approach**
  - **A more far-sighted approach**
  - **A more assertive approach**

# More assertive: The NMW is a blunt tool. We need pressure points above it to avoid a strategy of 'NMW plus a penny'

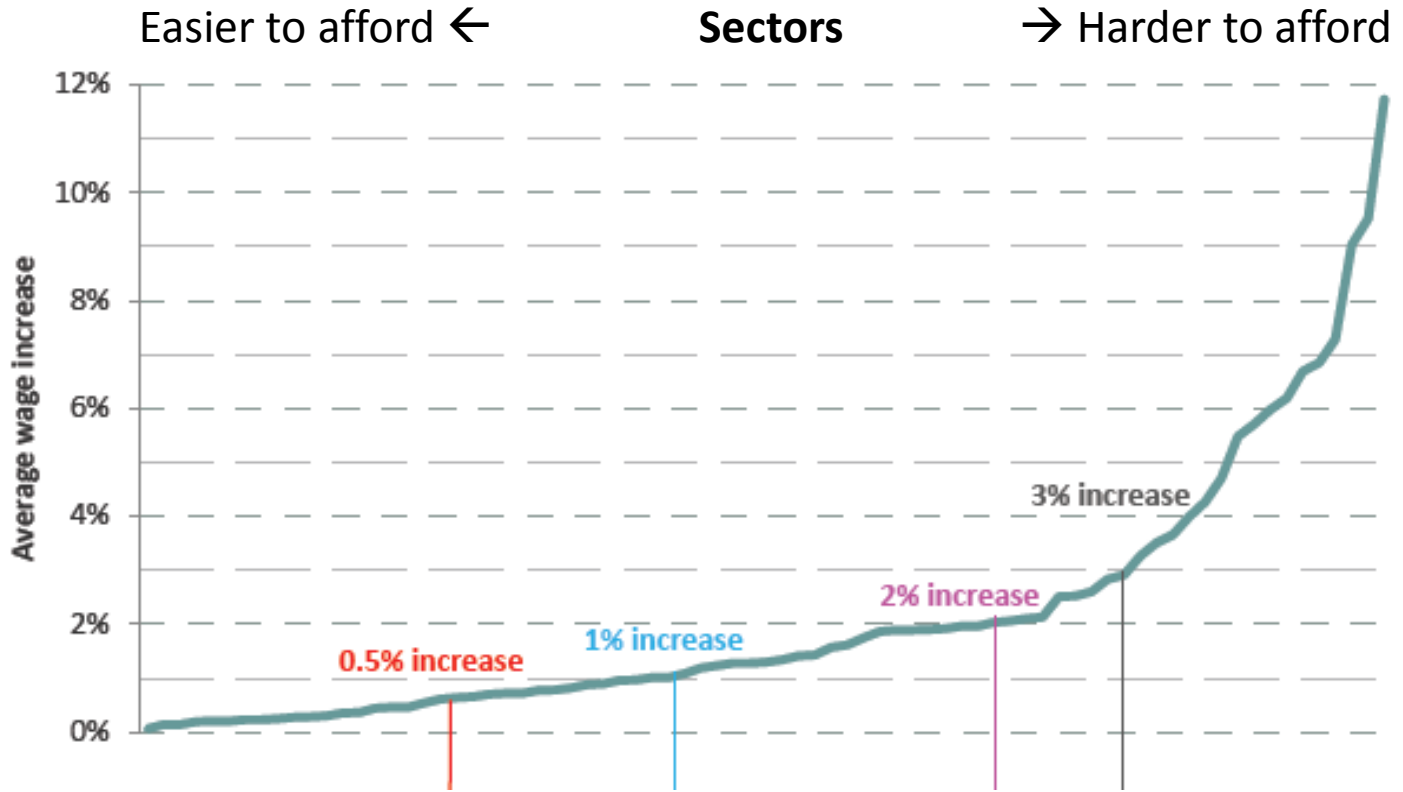
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- **Inevitable constraint of a single national minimum wage**
  - Set for the most vulnerable part of the labour market
  - Many employers could afford a higher wage-floor
- **Becomes a problem if employers take it as the going rate**
- **Some argue for mandatory sector or regional rates. But...**
  - No case for regions (except possibly London)
  - Risk of complexity/enforcement problems
  - Practical difficulties
- **LPC should inform debate**
  - Reference rate for London
  - Analysis on which sectors could pay more

# More assertive: The LPC should do more to inform the debate about which parts of the economy could afford to pay more

## The affordability of eliminating low pay by sector

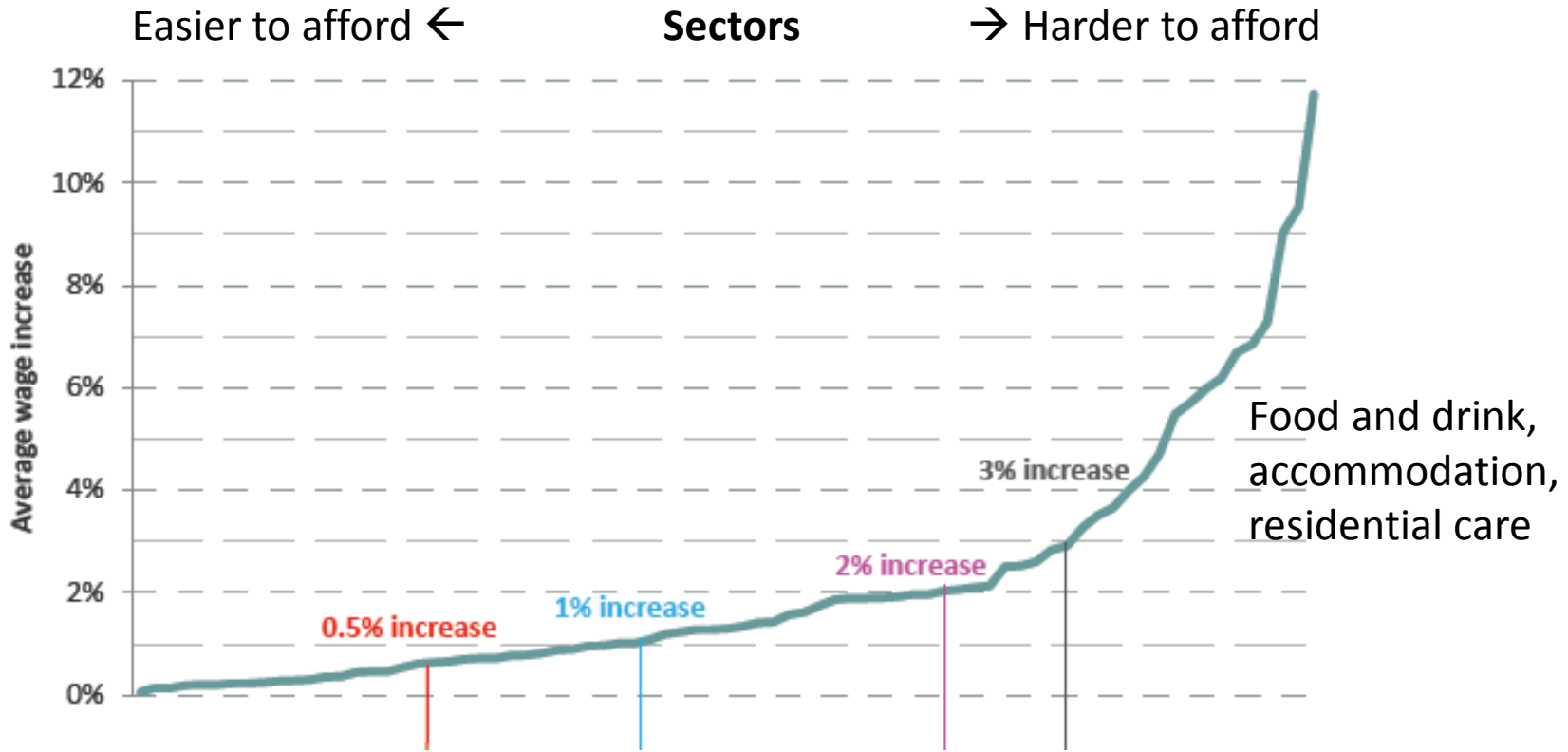
*Average wage increase by industry if wage floor had been raised to low pay threshold*



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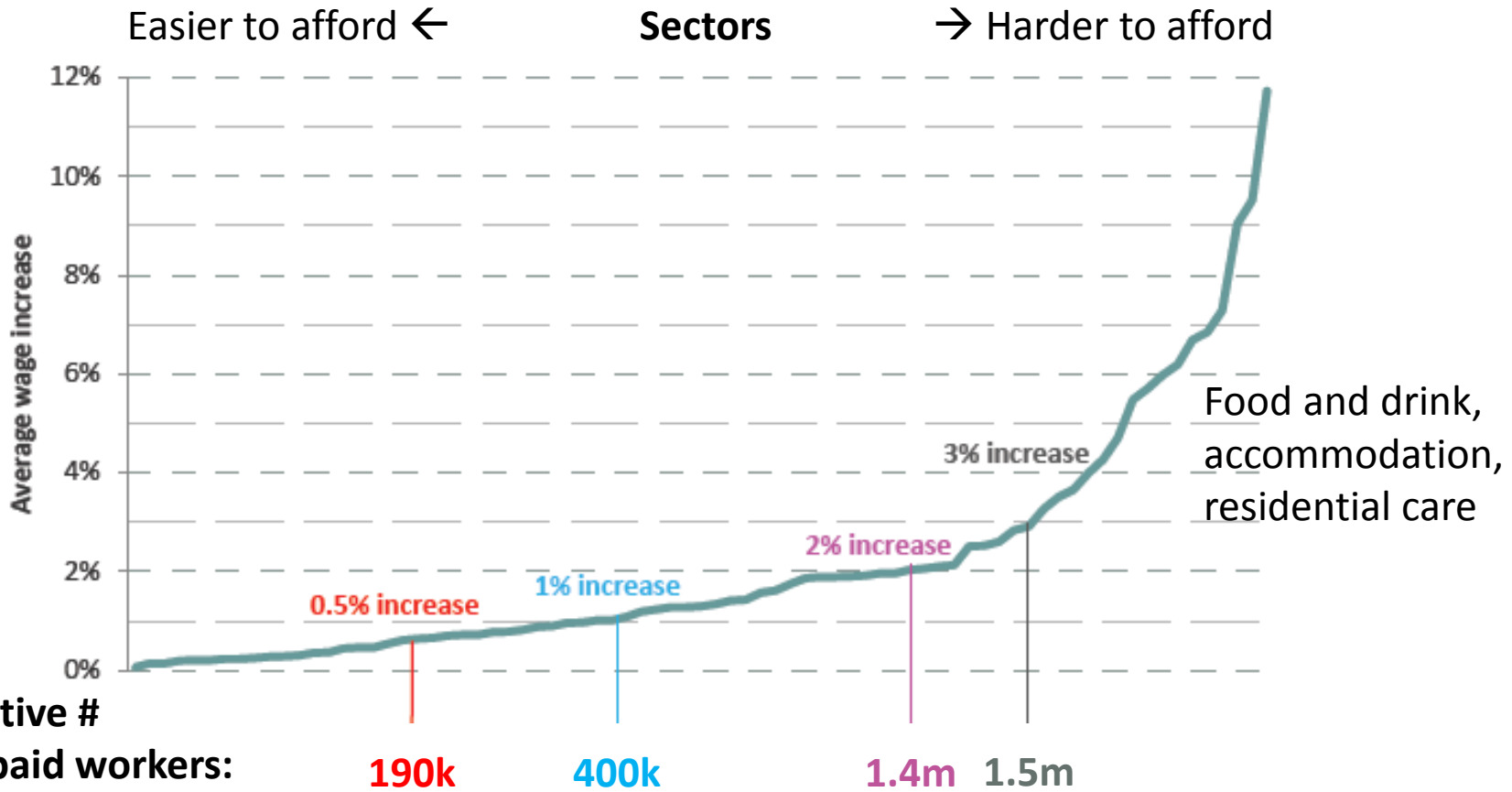
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## **Summary:** Retain the core of today's settlement but strengthen it – broader, more far-sighted and more assertive

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- **A single legal National Minimum Wage recommended from year to year by the independent Low Pay Commission**
- As part of a broader strategy to combat low pay, with the LPC as a powerful low pay watchdog
- Minimum wage set with more clarity and more balance of short-term flexibility and medium-term ambition
- A more assertive approach, pushing further in London and where sectors could afford to pay more

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*11 June 2014*