

[Press release: Low Pay Commission publishes research on the effects of the minimum wage on employment and automation](#)

The reports summarised below informed the Low Pay Commission's (LPC's) 2018 Report. The completed projects are from the National Institute of Economic and Social Research (NIESR) and the London School of Economics (LSE). NIESR covered the impact of the National Minimum Wage and the National Living Wage on employment, hours and wages, and the LSE their effect on and automation and offshoring.

The two ongoing projects are being conducted by the Institute for Social and Economic Research (ISER) at the University of Essex and Institute for Employment Studies (IES). The former concerns progression out of minimum wage jobs while the latter assesses the impact on employment and hours.

Low Pay Commissioner Professor Sarah Brown said:

The research we commission is vital for our understanding of the effects of the minimum wage rates we recommend. Over the last 20 years our commissioned research has helped us to successfully fulfil our remit of raising pay for the lowest-paid without causing unemployment. We are very grateful to the passion and commitment of academics from the UK and beyond who have put time and effort into what is a vital area of research, with a real impact on people's lives.

The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages, National Institute of Economic and Social Research

The National Institute of Economic and Social Research investigated the impact of the introduction of the NLW in April 2016 and its subsequent uprating in April 2017, assessing the effects on pay and employment.

The authors concluded that the NLW had been a significant intervention in the labour market, raising the wages of the lowest paid, but that it had so far had little adverse impact on employment retention overall. Using Annual Survey of Hours and Earnings data, they found no robust effect on general employment retention or hours worked, but did find some tentative evidence of negative effects on employment retention in the retail industry and among women working part-time.

Minimum wage and the propensity to automate or offshore, London School of

Economics

The main aim of this research project from the London School of Economics was to provide a deeper understanding of how minimum wage policies have affected automation and offshoring, focusing on the impact on those workers with low or no qualifications. This work built on a previous study – Lordan and Neumark 2018 – using US data that had found significant negative effects of minimum wage increases on employment via automation, especially in manufacturing.

Using the UK Labour Force Survey, the key findings were that minimum wage increases were followed by decreases in the share of employment in occupations defined as offshorable or automatable. However, these effects were modest – much smaller than in the US study – and were slightly stronger for automatable employment than offshorable. There were larger effects in manufacturing, particularly on automation. Here, a £1 increase in the minimum wage led to a 0.58 percentage point decline in the share of automatable jobs. The effects were largest for low-skilled men and older workers.

The study concluded by speculating about the future of jobs, suggesting that some low-skilled jobs were likely to continue (such as those in social care, childcare and hairdressing) while others were more likely to disappear completely (such as delivery drivers and security guards).

The NMW/NLW and progression out of minimum wage jobs in the UK – interim report, Institute for Social and Economic Research

The Institute for Social and Economic Research is investigating the impact of the NLW on earnings, pay differentials and pay progression. Final findings of this 18-month project will be presented in time for our 2019 Report. Consistent with previous research on progression, the interim study has so far found that, although around half of minimum wage workers left their jobs for higher pay in a given year, most (four-fifths) of these moved into higher-paying but still low-paid jobs. It found that worker characteristics and regional differences affected the likelihood of transitioning out of low pay. They will investigate this further this year and also examine the impact on pay differentials.

The impact of the minimum wage on employment and hours – interim report, Institute for Employment Studies

This Institute for Employment Studies project is an extended 18-month study investigating the impact of the NMW and NLW on employment and hours, including on young people. The interim report published today presents early findings from the analysis using the Labour Force Survey. This analysis found no significant effects on employment or hours as a result of NMW and NLW increases. Future analysis will focus on subgroups, such as women working part-time, and replicating the analysis using the Annual Survey of Hours and Earnings. The final research will be presented in time for our 2019 Report.

Notes

1. The Low Pay Commission will shortly be launching its Invitation to Tender for research for the 2019 Report and beyond. This call will include research that investigates: the impact on businesses, particularly prices, productivity, profits, investment, and business creation (start-ups) and destruction (failures); the impact of the minimum wage on employment and hours, focussing on any substitution of workers by age; the impact of the minimum wage on pay settlements and pay structures; and employer responses to the NLW.
2. The LPC's 2018 Report was published on gov.uk on Tuesday 27 November 2018.
3. The National Living Wage is the statutory minimum wage for workers aged 25 and over. It was introduced in April 2016 and has a target of 60% of median earnings by 2020, subject to sustained economic growth.
4. Different rates apply to 21-24 year olds, 18-20 year olds, 16-17 year olds and apprentices aged under 19 or in the first year of an apprenticeship.
5. Rates for workers aged under 25, and apprentices, are lower than the NLW in reflection of lower average earnings and higher unemployment rates. International evidence also suggests that younger workers are more exposed to employment risks arising from the pay floor than older workers. Unlike the NLW (where the possibility of some consequences for employment have been accepted by the Government), the LPC's remit requires us to set the rates for younger workers and apprentices as high as possible without causing damage to jobs and hours.
6. The National Living Wage is different from the UK Living Wage and the London Living Wage. Differences include that: the UK Living Wage and the London Living Wage are voluntary pay benchmarks that employers can sign up to if they wish, and are not legally binding requirements; the hourly rate of the UK Living Wage and London Living Wage is based on an attempt to measure need, whereas the National Living Wage is based on a target relationship between its level and average pay; the UK Living Wage and London Living Wage apply to workers aged 18 and over, the National Living Wage to workers aged 25 and over. The Low Pay Commission has no role in the UK Living Wage or the London Living Wage.
7. The Low Pay Commission is an independent body made up of employers, trade unions and experts whose role is to advise the Government on the minimum wage.
8. The nine Low Pay Commissioners are:
 - Bryan Sanderson
 - Professor Sarah Brown
 - Professor Richard Dickens
 - Kate Bell
 - Kay Carberry
 - Simon Sapper
 - Neil Carberry
 - Clare Chapman
 - Martin McTague