Resolution Foundation

Low Pay Britain 2020

Resolution Foundation annual report

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Contents

Executive Summary

This is our tenth annual Low Pay Britain report. Naturally, the focus of the report this year is on the coronavirus crisis: its impact on the low paid, and what this means for minimum wage policy.

The low paid have already suffered the worst of the economic effects of this crisis; they are more likely to have lost their job, or hours and pay, or to have been furloughed. They also suffered the greater health risks – they were less likely to be able to work from the safety of their homes. Unfortunately, the worst of the labour market fall-out from this crisis is still to come, with the economic effects of the pandemic ongoing and the Job Retention Scheme being wound down.

This creates a challenging and highly uncertain environment in which to set minimum wage policy. The Low Pay Commission (LPC) would have expected to be raising the National Living Wage (NLW) by around 50p this year. Instead, a lower uprating of around 15p is more likely. But this is still consistent with sticking to the longer-term aim of ending low pay by 2024. The Government should stick to this plan, and indeed built on it with other measures to improve the working lives of the low paid, including new and stronger labour market rights.

Before the crisis, the rising National Living Wage was driving down low pay

First, though, it's useful to reflect on where we were before the crisis. The pre-pandemic era saw real progress on low pay, with the introduction of and increases to the NLW – the new adult (aged 25+) rate of the minimum wage introduced in 2016 – driving reductions in the number of workers in low pay for the first time in a generation.

In 2019, low pay on our core definition (the number of people earning below two-thirds of median hourly pay) fell for the sixth consecutive year, falling from 17.0 per cent of employees in 2018 to 15.5 per cent in 2019, the lowest rate since 1978 – meaning 400,000 fewer employees in low pay. But there remains a long way to go with 4.2 million employees in low pay on this measure in 2019. The proportion of employees paid below the real Living Wage (the voluntary rate that reflects the cost of living) also fell, from 24 per cent in 2018 to 21 per cent in 2019 – its lowest level since 2011.

Rates of low pay continue to vary significantly across groups. Low pay is much more prevalent among younger employees (69 per cent of 16-20-year-olds and 28 per cent of 21-24-year olds were low paid), workers in the hospitality sector (52 per cent of whom were low paid) and workers in the private sector (20 per cent of private-sector employees were in low pay, compared to 4 per cent of those in the public sector). Part-time workers – and part-time women in particular – have benefited most from the latest reductions in low pay. The proportion of women working part-time in low pay fell 11 per cent between 2018 and 2019. At the regional level, Scotland and the West Midlands experienced the largest proportional decreases in low pay in the latest data.

The low paid have borne the brunt of this crisis

Unfortunately, these improvements in low pay, seen across many groups, all describe the pre-pandemic economy. We are now nine months into the largest economic crisis (in terms of the fall in output) in 100 years. The particular nature of the crisis, with the impact concentrated on the sectors which provide face-to-face services, means the economic impact has been felt most heavily by the low paid. In June, employees earning below the real Living Wage were around twice as likely as higher-paid earners to have lost their job, been furloughed, or lost hours and pay as a result of the crisis. There is some positive news in the fact that outcomes have been similar for workers on the minimum wage compared to workers who are also low paid but earn above the minimum wage. This suggests that the minimum wage increase in April this year did not have negative employment effects – rather, it is the concentration of the effects of this crisis in low-paying sectors that is the important factor.

Tragically, as well as bearing the higher economic burden, low-paid workers have also faced greater health risks. Many low-paid workers, from care workers to supermarket staff, helped to keep the country running during the lockdown. Low-paid workers were around half as likely as higher-paid ones (44 per cent, compared to 83 per cent) to have been working from home at the peak of the lockdown in May.

Pay growth fell sharply, thanks to the loss of pay experienced by furloughed workers

The Office for National Statistics' (ONS') headline employment figures have been slow to reflect the full effects of the scale of the economic crisis, although the unemployment rate did increase to 4.1 per cent in the latest data, with the rise driven largely by a fall in employment among younger workers. The Coronavirus Job Retention Scheme (JRS) means that the headline employment data has hardly moved, but HMRC's more timely count of paid employees is down 700,000 on pre-crisis and hours worked are still down 17 per cent on the pre-crisis levels.

Measures of pay growth, however, have been highly volatile, and in the middle of the lockdown period had fallen substantially. Nominal regular weekly pay fell by 0.1 per cent in the year to April – the first time on comparable records that regular pay has fallen in cash terms. And while nominal pay growth has since improved, real pay fell by 0.2 per cent in the year to July.

These pay falls have come at a time when earnings had only just returned to their pre-financial crisis peak.

These effects are in large part being driven by the JRS, take up of which has resulted in many furloughed workers moving onto 80 per cent of their previous pay. This also explains why pay growth in this period has fallen fastest for lower-paid workers – for whom furloughing has been much more common – as well as slower to unwind – in some of the lowest-paying sectors, such as hospitality and leisure. Real pay in the hospitality sector, for example, fell by more than 10 per cent in the year to July.

The outlook for the coming months is bleak, albeit highly uncertain. Official forecasts from the Office for Budget Responsibility (OBR) suggest that the number of people out of work could rise to 12 per cent by the end of the year, while the Bank of England suggests a more conservative 7.5 per cent. The true rate may end up somewhere between the two estimates – but there are already worrying signs in the form of redundancy announcements. With the JRS set to end as soon as next month, and restrictions on social and economic activity being re-introduced, Britain looks set for a spike in unemployment that is focused amongst the low paid before the end of the year.

Policy makers deciding on the path of the minimum wage for 2021 face a difficult decision

With much uncertainty about the future path of this crisis, policy makers face a difficult task setting the 2021 NLW and associated youth minimum wage rates. There is always a balancing act in minimum wage policy, between driving up pay and being mindful of risks to jobs. That balance is harder to strike in a downturn, and even more so in a downturn as unique and unprecedented as this one.

2021 was meant to be the first year of the 2021-2024 uprating period, during which the Low Pay Commission has been tasked with setting the NLW on a course to reach two-thirds of median pay at the end of it. This policy framework of setting the wage floor relative to typical pay means we are likely to see much lower NLW increase this year. On last year's earnings forecasts, we would have expected an increase of around 50p for 2021. With wage growth uncertain but significantly lower than previously forecast, a 50p increase now looks unlikely. Indeed, if the Low Pay Commission continues its approach of maintaining a smooth path to the target 2024 'bite' (the NLW as a proportion of median pay for the age groups covered by it) we look set for the lowest increase in a decade, of around 15p. It's worth noting that this figure is based on available wage forecasts, which are of course uncertain. 15p is the increase implied by the central point of a range of forecasts; the Bank of England's forecast implies a lower 10p uprating, while the OBR's central scenario implies a higher uprating of 35p. And more importantly, the LPC hasn't taken a decision yet, it could for example decide to change its recent approach of moving towards its target in a straight line.

This lower increase is not what anyone wants to see, but there are good reasons to be cautious this year. First, there are big unknowns about the impact of significant minimum wage increases in any downturn, but particularly one in which the future path of the virus and therefore also the economy are particularly uncertain. Second, and more importantly, the key minimum wage sectors are facing the largest demand and supply shocks in this crisis. For example, output in hospitality in July was down 60 per cent compared to February. And third, we might expect that firms, in those sectors in particular, will be less able to respond to minimum wage increases than normal given low investment and little price flexibility.

By contrast, the decision on whether to press ahead with lowering the age threshold for the NLW to 23 in 2021 is less material and we believe should be implemented. This conclusion reflects the fact that few (7 per cent) 21-24-year-olds earn their age-specific rate, and an overall cautious uprating would ease the impact of the threshold reduction on those sectors (such as retail and hospitality) that employ many young people. In addition, simplifying the minimum wage age structures is a popular move among both workers and businesses. The minority of 23- and 24-year-olds who are paid the 21-24-year-old rate and move to the NLW would experience a pay increase of around 6 per cent, assuming the youth rates rise in line with the adult rate.

Of course, there are risks to employment and family incomes from going either to fast or too slow on minimum wage uprating. These can be reduced by wider policy choices. To protect family incomes, the Government should protect the £20-per-week addition to Universal Credit and tax credits that was introduced in April 2020. Doing so would increase incomes in the bottom decile by 14 per cent, compared to a scenario in which awards dropped back to their pre-2019 levels (uprated by inflation), as is current Government policy. Raising the NLW by even as much as 50p would, on the other hand, only raise incomes by 0.7 per cent in the bottom decile. This is because not all minimum wage workers are in low-income households. Importantly increases in the minimum wage will obviously do nothing to protect the incomes of the many low paid workers who lose their jobs in the current crisis.

On the other hand, the risks of setting the minimum wage too high should be mitigated by both broad-based fiscal stimulus (supporting demand and giving businesses the confidence to retain workers), but also via targeted wage support policies such as sector-specific wage subsidies. We have called on several occasions for the replacement for the Job Retention Scheme, to be targeted at the hardest-hit sectors, to minimise job losses in those sectors as the economic effects of the pandemic continue to be felt.

The Government should stick to, and build on, the target of ending low pay

While there is significant uncertainty about the short-run impact of the minimum wage during this pandemic, prompting a cautious approach this year, in the longer term, the 2024 target to end low pay has an in-built flexibility, and there is therefore no reason to abandon or change this target (to pull the 'emergency brake', in the language of the LPC's 2020 remit). If the pandemic has a lasting negative effect on productivity and pay, this will be reflected in a lower nominal target for the minimum wage. And we have lots of evidence about the impact of raising the wage floor in more normal times – employment effects have proved to be small, even in places where the minimum wage has been pushed to levels similar to the UK's ambition for the coming years.

Also contributing to optimism about the potential for further increases it the minimum wage is the fact that the number of people paid it has been flat since 2016, at just below 7 per cent of employees. This is contrary to expectations (including our own) that a rising wage floor would lead to ever increasing bunching of workers earning it, with wage differentials disappearing. That concern now appears overstated. Coverage rose and wage differentials were squeezed in 2016, but there has been little change since then, reflecting 'spill-over' effects via which minimum wage increases ripple up the distribution. Instead, employers have been able to protect wage differentials. This is true across the key low-paying occupations we assess, with the typical wages of groups including care workers, cleaners and retail assistants maintaining their differentials to the NLW since 2016.

That doesn't mean that employers will continue to be able to maintain differentials indefinitely. Maintaining those gaps is easier in a buoyant economy and a tight labour market, and there is now greater uncertainty about the future. On the other hand, it is possible that the long-term, target-based approach to minimum wage setting, which the UK has used since 2016 and continues to use, may have contributed to this positive outcome, giving employers more time to prepare for and adjust to increases. This recent history, along with the weight of evidence on the minimal negative employment effects of minimum wage increases, means we should stick to the 2024 target of 'ending low pay' (while continuing to actively monitor the evidence and being prepared to change course if needed).

Alongside a rising wage floor, other policies to improve the lives of the low paid are needed. The UK's recent history shows that even record employment and a rising wage floor are not enough to guarantee good work in all parts of the labour market, and there is a need for policy makers to return to, and build on, the good work agenda. Improvements for low-paid workers should include better access to (and improvements to the generosity of) sick pay, more control over hours and shifts, and wider access to and better enforcement of existing rights.

Section 1

Introduction

This is our tenth annual Low Pay Britain report, in which we chart the number of workers in low pay and explore other issues that matter to low-paid workers. It has been a decade of real progress – ambitious minimum wage policy since 2016 has driven down the proportion of workers in low pay. So much so that recent reports have turned to asking how best to drive increases in the wage floor further still, and what else policy makers can do to improve the lives of low-paid people.

Unfortunately, with the world in the grip of the pandemic, this report takes a rather less positive tone. Although we start by charting recent history, and showing that minimum wage increases were continuing to drive down low pay before the pandemic, the rest of the report turns to the impact of the coronavirus crisis on low- paid workers, and what this means for minimum wage policy. With many sectors still suffering the economic effects of the virus, with job losses likely to follow the closure of the Government's Job Retention Scheme, and with risks of a second wave and the need for a further round of social distancing measures rising, we conclude that minimum wage increases in 2021 are likely to be more cautious than in recent years. This may be seen as bad news for low-paid workers, many of whom have worked on the frontline of this crisis. But it's likely to be the best course of action for minimising unemployment and the hit to living standards that would follow.

We hope that next year's report will see the virus behind us, and able to return to the themes of driving down low pay and improving the lives of low-paid workers.

The remainder of this report is set out as follows:

- Section 2 charts recent trends in low pay pre-pandemic, including the impact of the National Living Wage on low pay, and the groups of workers this has benefited.
- Section 3 turns to the impact of the crisis on low-paid workers, using the latest data on pay and employment.

- Section 4 considers the options for policy makers as they set minimum wage policy for 2021.
- Section 5 turns to the longer-term outlook for minimum wage policy.

Section 2

Low pay before the crisis

The labour market has changed beyond recognition since April 2019, when the most recent data from the Annual Survey of Hours and Earnings (ASHE) was collected. Nonetheless, it is important to take stock of low pay going into the coronavirus crisis to better understand the starting point for those workers who have been particularly affected by it, and the prospects for low pay and the minimum wage in the coming years.

The latest ASHE data shows that the National Living Wage continued to drive down low pay in 2019, with the number of people paid below two-thirds of the median wage declining for the sixth year running. This fall in low pay particularly benefited part-time women and workers in Scotland and the West Midlands. And even as the NLW was driving down low pay, the share of people being paid at the wage floor was not increasing – minimum wage increases continued to ripple up the bottom end of the wage distribution.

Low pay continued its decline in 2019

Low-paid workers have been at the forefront of the coronavirus crisis. The low-paid key workers who kept the country running throughout the lockdown have rightly garnered attention and praise, while low-paid workers in sectors like non-food retail and hospitality bore the brunt of the economic crisis.[1] Given the profound effects that the pandemic has had on our labour market since the beginning of this year, the latest earnings data from the 2019 Annual Survey of Hours and Earnings (ASHE) may seem outdated. Nonetheless, it is important to understand the extent of low pay, and the groups most likely to experience it, before the crisis hit (see Box 1 for details on how we define low pay, and Annex 2 for details on how we measure low pay in ASHE and combine it with other datasets to provide a longer-term measure).

1 T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect, Resolution Foundation, June 2020.

BOX 1: Defining low pay

There are lots of definitions of low pay, but broadly these can be classed into two types: relative and absolute measures. Relative measures of low pay classify someone as low paid if they earn less than a specified percentage of a certain level of pay. Absolute measures of low pay designate someone as low paid if they earn below a specific amount. We use both types of measure. Specifically, the three measures that we use are (the first of which is a relative measure, the second two of which are absolute measures):

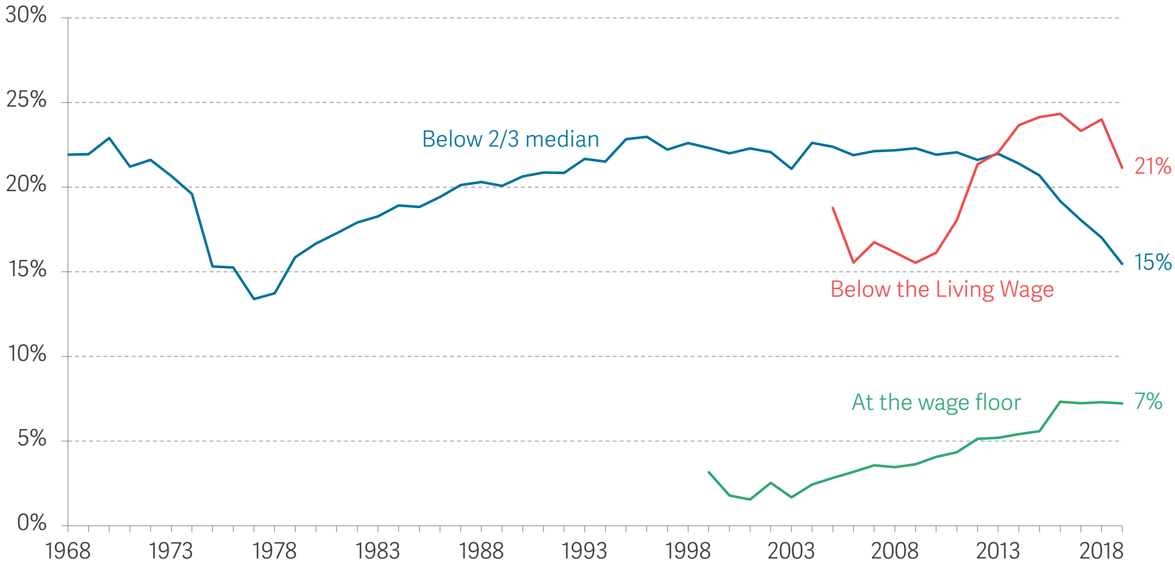
- **A 'core' low pay definition**: This is based on the approach taken by the Organisation for Economic Co-operation and Development (OECD) and captures those employees with hourly earnings (excluding overtime and premium payments) less than two-thirds of the national median across all employees. This threshold was £8.81 an hour in April 2019.[2]
- **A 'needs-based' low pay definition**: This aims to relate pay levels to the cost of living by capturing those employees earning less than the Living Wage rate in their area, as promoted by the Living Wage Foundation. In April 2019, the London Living Wage rate was £10.55 and the UK Living Wage rate was £9.00.[3] We take a workplace approach, so that individuals are considered low paid if they earn less than the appropriate Living Wage in the area where they work (rather than where they live).
- **A 'wage floor' definition**: This captures those employees earning at, below or up to 1 per cent above their age-appropriate minimum wage. In April 2019, the wage floor for those aged 25 and over (the National Living Wage) was £8.21 an hour, with lower legal minimums applying to younger workers and first-year apprentices.[4]

In 2019, low pay on our core definition (the number of people earning below two-thirds of the median) fell for the sixth consecutive year – see Figure 1. While low pay on this measure had been in decline since 2013, it was the introduction of the National Living Wage (NLW) in 2016, increasing the minimum wage for workers aged 25 and over from £6.70 to £7.20, that drove the biggest annual fall in low pay since the late 1970s. This welcome trend continued in the latest data: the proportion of workers earing below two-thirds of the median fell from 17.0 per cent in 2018 to 15.5 per cent in 2019 (meaning 400,000 fewer employees in low pay), reaching its lowest level since 1978.

2 Office for National Statistics, Annual Survey of Hours and Earnings time series of selected estimates, October 2019.
3 Living Wage Foundation, What is the Living Wage?, accessed 1 September 2020.
4 Gov.UK, National Minimum Wage and National Living Wage rates, accessed 1 September 2020.

FIGURE 1: **Low pay was in decline before the coronavirus crisis**

Proportion of all employees below selected low pay thresholds: GB, 1968-2019



NOTES: Figure 1 first appeared in: T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect, Resolution Foundation, June 2020.
SOURCE: RF analysis of DWP, Family Expenditure Survey; ONS, New Earnings Survey Panel Data; ONS, Annual Survey of Hours and Earnings.

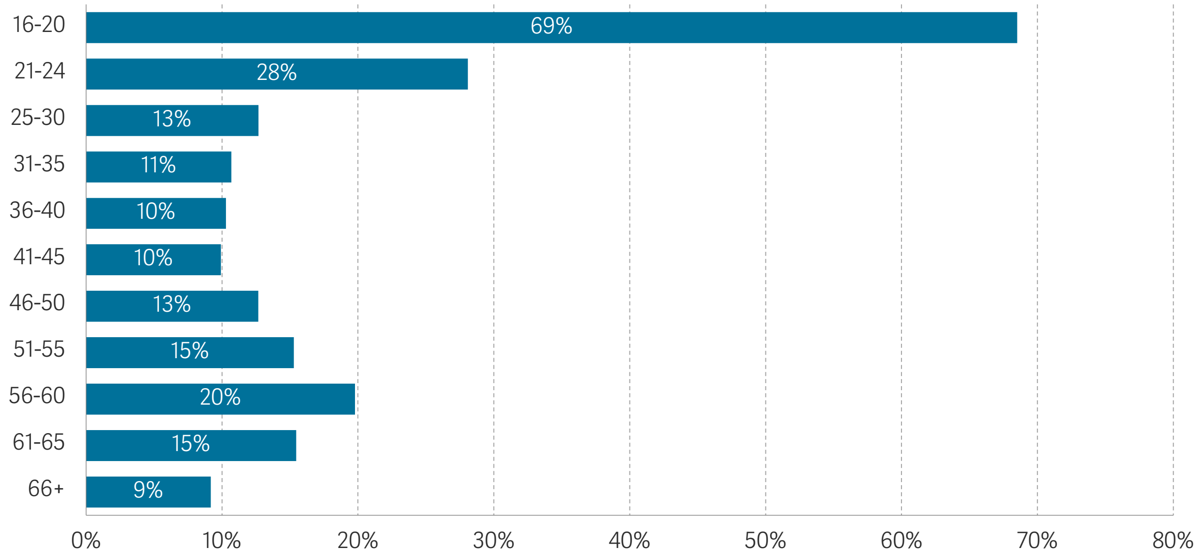
Alongside the sustained falls in the proportion of workers paid below two-thirds of the median, Figure 1 also shows a promising fall in the share of workers paid below the real Living Wage (the voluntary rate that reflects the cost of living) from 24 per cent in 2018 to 21 per cent in 2019. This puts the proportion of employees paid below the Living Wage at its lowest level since 2011.

Younger employees and people working in hospitality are most likely to be low paid

In total, 4.2 million employees were low paid in 2019. But the likelihood of being low paid varied significantly between different groups (see Annex 1 for a detailed breakdown of the incidence of low pay across different groups of employees in 2019). Figure 2 shows that the youngest workers were much more likely than average to experience low pay: 69 per cent of 16-20-year-olds and 28 per cent of 21-24-year-olds earned below two-thirds of typical pay, compared to just one-in-ten workers in their thirties or early forties. As the NLW is extended to workers aged 21 and over in the coming years, it is likely that many workers in the 21-24 age group will be lifted out of low pay (see Sections 4 and 5 for a more detailed discussion of future minimum wage policy).

FIGURE 2: **More than two-thirds of 16-20-year-olds and one-in-four 21-24-year-olds are low paid**

Proportion of employees earning below two-thirds of median hourly pay, by age group: GB, 2019

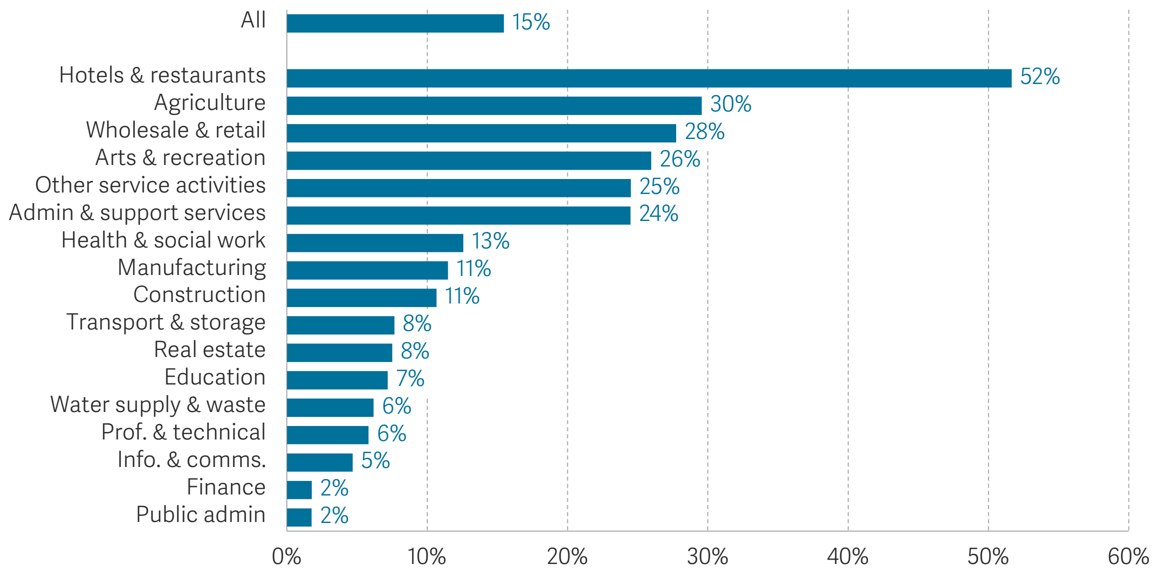


SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Low pay was also much more prevalent in some industries than others in 2019. As shown in Figure 3, the hotels and restaurants sector had the highest share of workers in low pay (52 per cent), followed by agriculture, retail, and arts and recreation – sectors in which more than a quarter of workers earned below two-thirds of typical pay.

FIGURE 3: **Over half of workers in the hospitality sector are low paid**

Proportion of employees earning below two-thirds of median hourly pay, by industry: GB, 2019



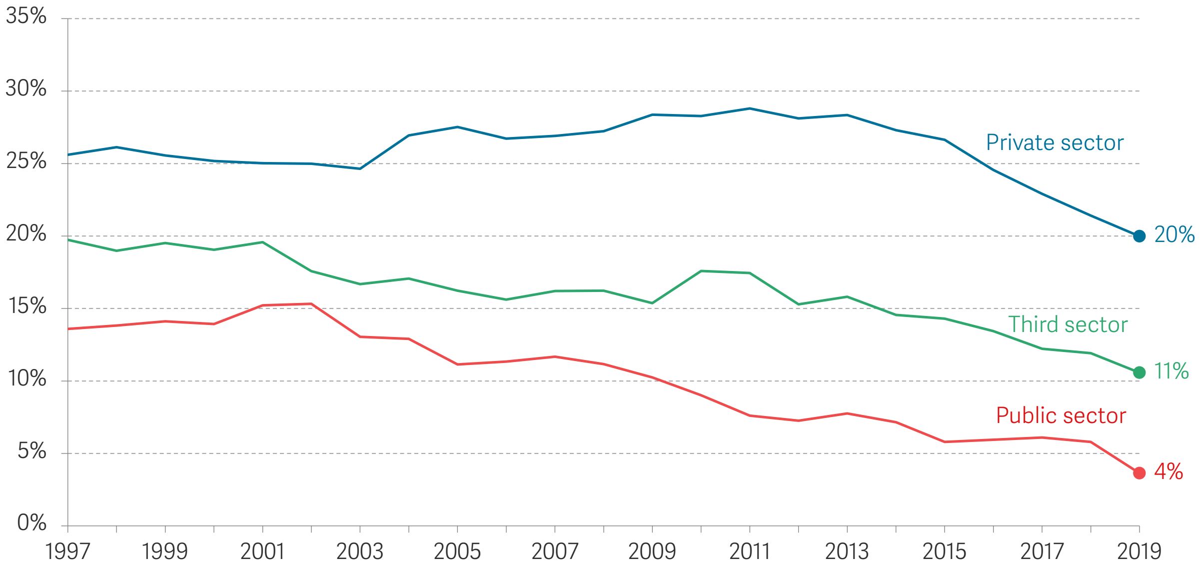
NOTES: A version of Figure 3 first appeared in: T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect, Resolution Foundation, June 2020.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Many of these sectors, of course, have been impacted by social distancing restrictions and even shut down entirely during the pandemic (see the following section). At the other end of the scale, just 2 per cent of workers in the finance and public administration sectors were low paid in 2019.

Low pay was also much more prevalent in the private sector than in the public or third sectors last year. As Figure 4 shows, one-in-five private sector workers was paid below two-thirds of median hourly earnings in 2019, compared to just 4 per cent of public sector employees. Private sector workers, however, have benefited most from the falls in low pay since 2013, helping the gap in rates of low pay between private and public sector workers to narrow somewhat.

FIGURE 4: **One-in-five workers in the private sector is low paid**

Proportion of employees earning below two-thirds of median hourly pay, by firm type: GB, 1999-2019



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Part-time workers have benefited most from the latest reductions in low pay

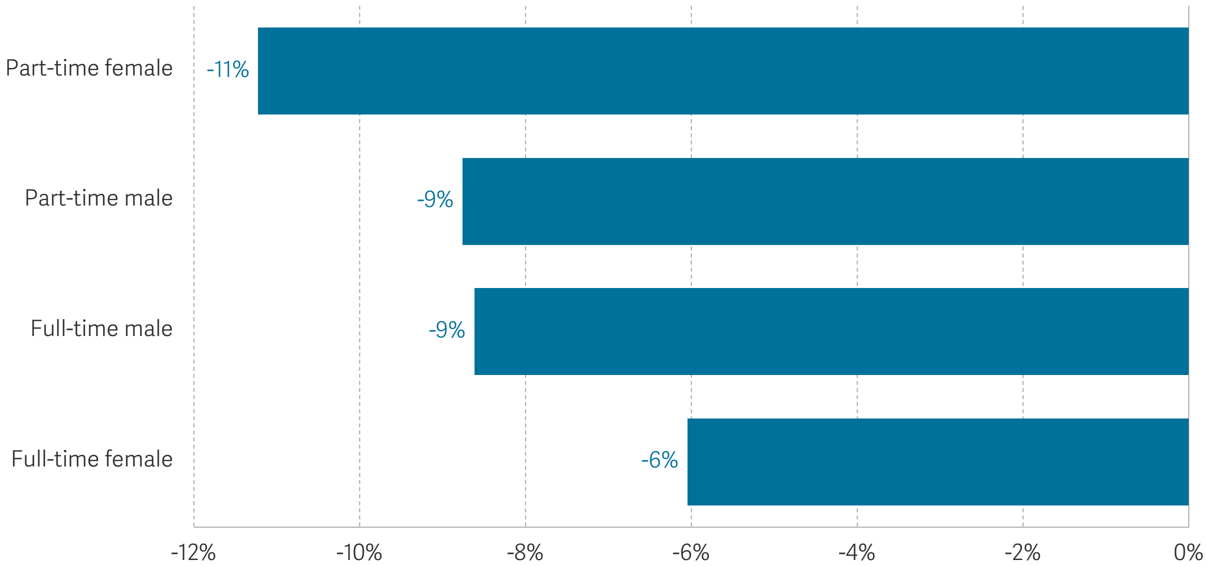
The gains from the overall reductions in low pay in recent years have not been evenly spread across all groups of employees. For example, in last year's Low Pay Britain report, we found that women, 25-30-year-olds and private-sector employees were the biggest beneficiaries from the fall in low pay in the year to 2018.[5]

5 N Cominetti, K Henehan & S Clarke, Low Pay Britain 2019, Resolution Foundation, May 2019.

Switching to the latest year for which we have data, Figure 5 shows that part-time workers – particularly women working part time – experienced the biggest reductions in low pay in the year to April 2019. The proportion of part-time women in low pay fell from 32 per cent in 2018 to under three-in-ten (29 per cent) in 2019.

FIGURE 5: **Part-time women have benefited most from the latest reductions in low pay**

Change in the number of employees paid below two-thirds of median hourly pay, by sex and whether working full or part time: GB, 2018-2019

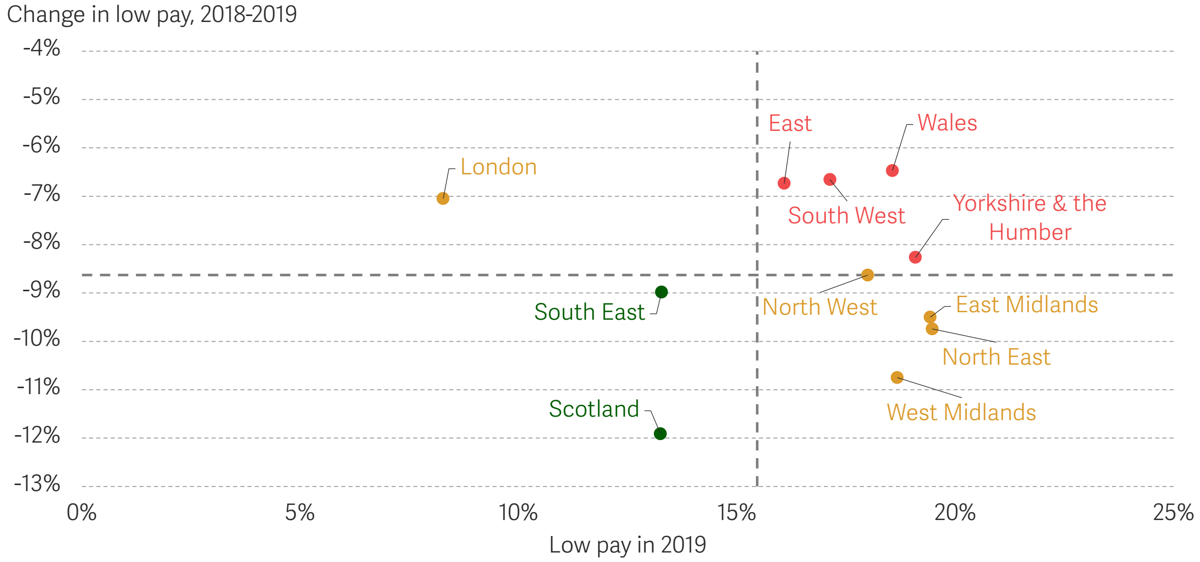


SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

At the regional level, Scotland and the West Midlands experienced the largest proportional decreases in low pay in the year to April 2019, with Scotland also having below average levels of low pay (as shown in Figure 6). On the other hand, the South West, Wales, and Yorkshire and the Humber had smaller-than-average reductions in low pay despite having among the highest low-pay levels in 2019 – essentially, their relative position as low-pay hotspots was compounded.

FIGURE 6: **Scotland and the South East have seen the biggest reductions in low pay, despite already having below-average levels**

Change in the number of employees paid below two-thirds of median hourly pay, by region and low pay level: GB, 2018-2019



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

The share of workers paid at the wage floor has remained flat

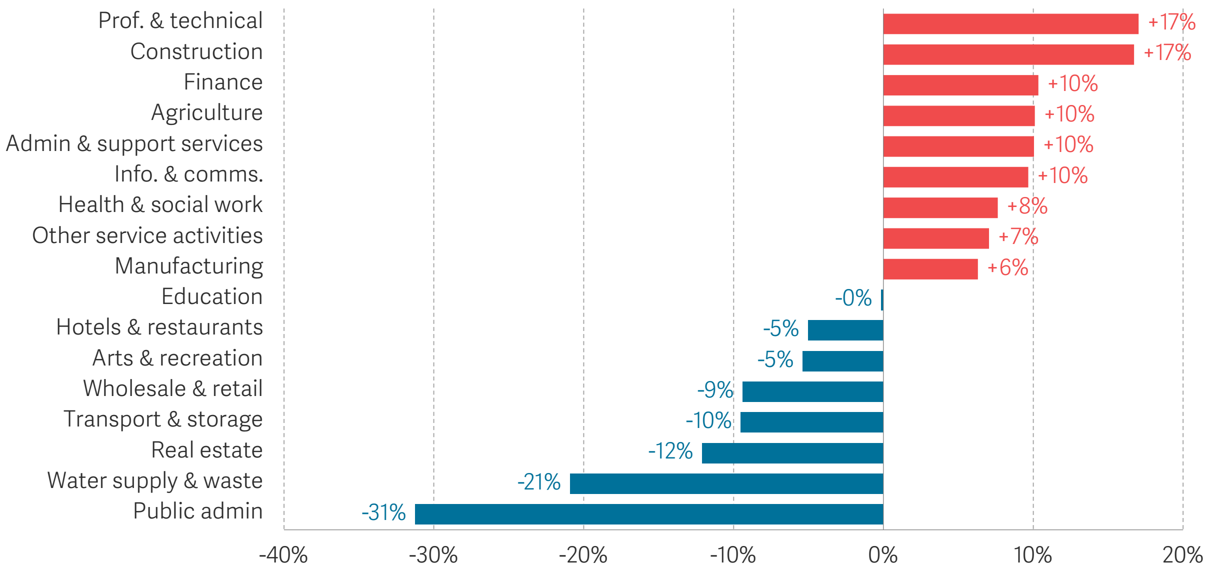
As noted above, the welcome decline in low pay shown in Figure 1 is thanks in a large part to the introduction of the NLW in 2016, and its relative growth since that date. But despite these continued rises, there has been no increase in the proportion of employees paid at the wage floor since the step change in 2016. In 2019, 7.2 per cent of workers were paid at the minimum, slightly lower than the 2018 figure (7.3 per cent), and equivalent to 8,000 fewer workers being paid at the wage floor. Other low-paid workers paid slightly above the minimum seem to have benefited from 'spill-over' effects – getting pay rises themselves when the minimum wage goes up, so that employers can maintain pay differentials between different groups of workers.[6]

Coverage has not remained uniform in all sectors, however, as Figure 7 makes clear. But notably, the number of workers paid at the wage floor fell between 2018 and 2019 in three of the four highest-coverage sectors (see Figure 3): hotels and restaurants, arts and recreation and wholesale and retail (only increasing in the low paid but very small agriculture sector). Together these three sectors, in which minimum wage coverage has fallen in the latest data, account for just under half (49 per cent) of employees on the wage floor.

6 Low Pay Commission, The National Minimum Wage in 2020, April 2020.

FIGURE 7: **Minimum wage coverage has decreased in the high-coverage retail and hospitality sectors**

Change in the number of employees paid at the minimum wage, by industry: GB, 2019



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Little evidence of 'bunching' at the wage floor – either across the economy as a whole or in the key low-paying sectors – is welcome news, particularly in light of government commitments to raise the minimum wage further in future. The evidence to date suggests that alongside no discernible employment effects from raising the minimum wage,[7] there has not been a 'race to the bottom', with an ever-growing number of low-paid workers having their wages determined by the government. But of course, this data reflects the position before the coronavirus outbreak, and a time when the labour market was reasonably tight. In Section 5 of this report we return to the topic of minimum wage coverage and spill-overs, in order to evaluate government's medium-term ambitions for the wage floor in light of recent events.

Low pay, then, was continuing its decline before the coronavirus crisis hit. The NLW helped to lift 400,000 people out of low pay between 2018 and 2019, while the share of workers paid at the wage floor remained steady. But over four million people were still paid less than two-thirds of typical earnings – and many of these workers have borne the brunt of the crisis. The next section will show how pay has evolved during the crisis, and the experience of low-paid workers during the lockdown.

7 A Dube, Impacts of minimum wages: Review of the international evidence, Department for Business, Energy and Industrial Strategy and HM Treasury, November 2019.

Section 3

Low pay in the crisis

While the headline employment and unemployment numbers were slow to respond to the labour market shock caused by the coronavirus pandemic, pay began to fall as early as April, when average weekly earnings fell in cash terms for the first time this century. Yet more recently, timely data suggests a return to pay growth. Pay growth in the midst of the crisis may be far from welcome news, however: it reflects the fact that low-paid workers have been more likely to lose their job, leaving the average employee higher paid.

In addition to being more likely to lose their jobs, low-paid workers have also been more likely to be furloughed (with accompanying pay cuts for many) and to lose hours. This is not a minimum wage-related phenomenon: low-paid workers paid above the wage floor, but below the real Living Wage, have been similarly affected. This puts low-paid workers at particular risk of future job losses as Government support is withdrawn in the autumn, when official forecasts expect unemployment to spike.

Average weekly earnings fell during lockdown but are showing signs of recovery

The labour market impact of the coronavirus pandemic has been slow to show up in the headline employment and unemployment time series.[8] The Coronavirus Job Retention Scheme (JRS) has protected millions of jobs, partly contributing to the fact that the headline unemployment rate only began to drift upwards in July this year, to 4.4 per cent, up from 3.8 per cent in June (reaching 4.1 per cent on the latest official, three-month measure).[9]

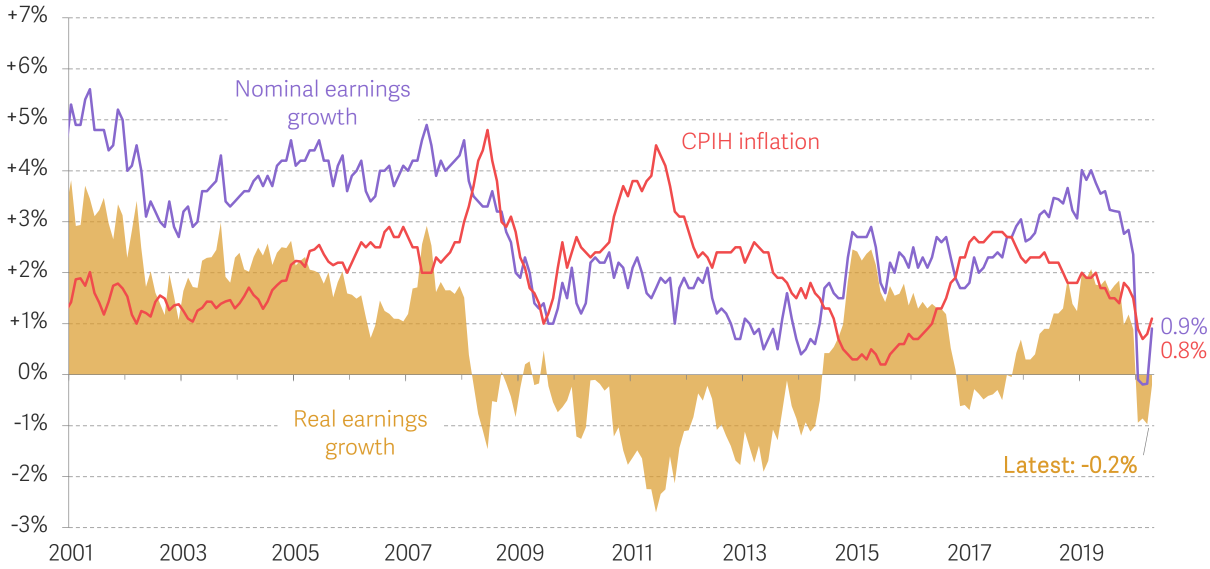
8 M Brewer, L Gardiner & K Handscomb, The truth will out: Understanding labour market statistics during the coronavirus crisis, Resolution Foundation, July 2020.

9 By contrast, the number of employees on businesses' payrolls moved slightly more quickly and has continued to deteriorate at a gentler pace in the latest data, amounting to a fall of 706,000 between February and August.

Official data on pay was faster to change – though no less difficult to interpret.[10] Weekly earnings growth was quick to turn negative as the crisis hit. Nominal regular pay fell by 0.1 per cent in the year to April – the first time on comparable records that regular pay has fallen in cash terms. The nominal growth rate has since returned to positive territory in the latest data covering July (Figure 8), although real growth remains poor: after adjusting for inflation, real pay fell by 0.2 per cent in the year to July.

FIGURE 8: **Real pay has been falling since the crisis hit**

Annual growth in average weekly earnings (regular pay) and CPIH inflation, single-month figures: UK



NOTES: Growth is year-on-year change in one-month average; pay is regular pay i.e. excludes bonuses and arrears.
SOURCE: RF analysis of ONS, Labour Market Statistics (Average Weekly Earnings).

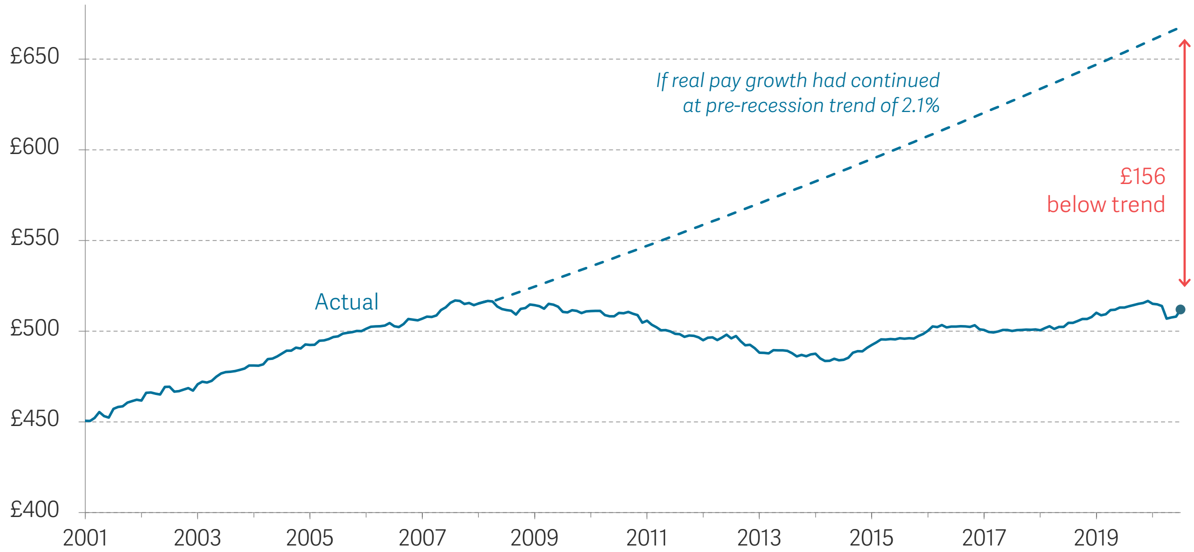
This fall in real pay comes at a time when pay had only just returned to its pre-2007 peak. As Figure 9 shows, pay finally returned to its pre-recession peak in January – at the time, still 27 per cent below where it could have been if pay had continued to rise at its pre-financial crisis growth rate.[11] Pay falling once again will harm living standards even further.

Experimental but more timely sources of data reveal that the slight recovery in the latest average pay data may have strengthened through the summer. An alternative source of pay data, real-time information (RTI) data from HMRC, reached 1.8 per cent real growth in August, as shown in Figure 10. This series was also stronger than the Average Weekly Earnings (AWE) data in July, but the two generally move relatively in line with one another.

10 N Cominetti & L Gardiner, Earnings Outlook Q1 2020, Resolution Foundation, July 2020.
11 N Cominetti, A record-breaking labour market – but not all records are welcome, Resolution Foundation, February 2020.

FIGURE 9: **Real earnings have fallen back to 2018 levels**

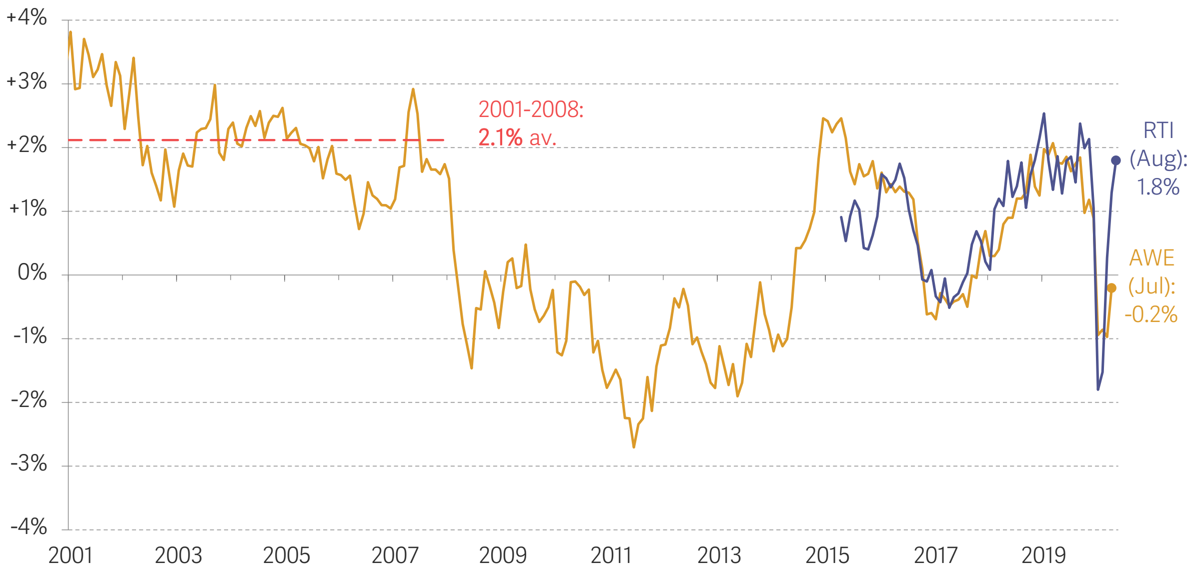
Real (CPIH-adjusted to July 2020 prices) average weekly earnings (regular pay): UK



SOURCE: RF analysis of ONS, Labour Market Statistics.

FIGURE 10: **The timeliest data suggests average pay is bouncing back**

Annual growth in real (CPIH-adjusted) average weekly earnings (regular pay) and real-time PAYE median monthly pay, single-month figures: GB/UK



NOTES: Growth is year-on-year change in one-month average. Pay is regular pay i.e. excludes bonuses and arrears, in the AWE series (covering GB) and total pay in the RTI series (covering the UK).
SOURCE: RF analysis of ONS, Summary of labour market statistics; ONS, Pay As You Earn (PAYE) Real Time Information (RTI) (Experimental Statistics).

This choppy fall-then-rise in our latest pay data likely reflects both upward and downward pressures on pay growth. First, exerting upward pressure are 'compositional' effects stemming from job losses during the crisis that push average pay up: given that emerging evidence suggests that lower-paid workers have so far been more likely to lose their jobs, the workers who are left in the labour market (and the earnings data) will be higher paid, on average.[12] Second, and acting in the other direction, tough economic circumstances mean many employers will be freezing pay (driving cuts in real pay, assuming that inflation remains above zero), or may even cut pay in nominal terms. While nominal pay cuts are normally rare,[13] they could become more common in the coming months given the scale and speed of the economic shock and a looser labour market, especially when combined with possible new norms resulting from many workers facing a nominal pay cut while on furlough.

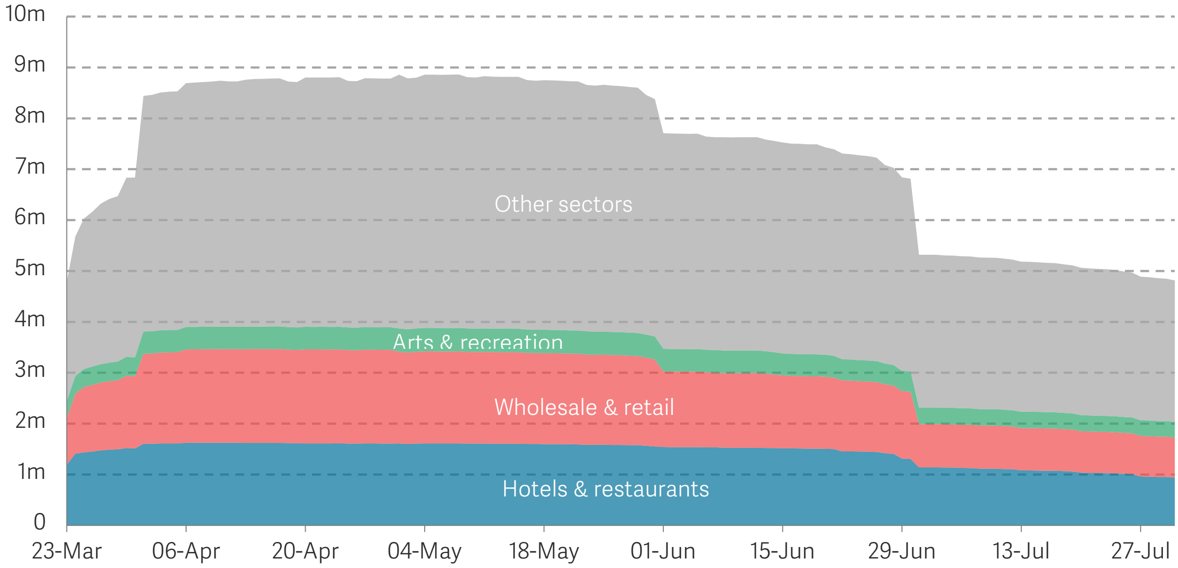
Furloughing – particularly among lower-paid employees – has been a big driver of pay changes

The third and final driver of our choppy pay data is the JRS, which has resulted in many workers moving onto 80 per cent of their previous pay. As shown in Figure 11, by the end of July, furloughing had fallen from its peak of 8.9 million to 4.8 million. The rise and fall of furloughing over this period is likely to be a factor in the fall-and-rise of earnings over the same time-frame. Furloughing has been both much more common, and slower to unwind, in some parts of the economy than others. At the end of July, despite a drop in the number of retail workers on the JRS, 2 million jobs were still furloughed in three of the four sectors where low pay is most prevalent, 42 per cent of the total.[14]

12 For example, see: L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.
13 For a discussion, see: S Millard, J Smith & S Tatomir, Wage Setting – Flexibility and Rigidity in the UK since 1975, Bank of England, December 2014.
14 For more detail on how take-up of the JRS has evolved across sectors, see: D Tomlinson, Final furlough?: Six months on from the start of the Job Retention Scheme, Resolution Foundation, September 2020.

FIGURE 11: **At the end of July, two million jobs were furloughed in the retail, hospitality and leisure sectors combined**

Number of employments furloughed, by sector: UK



SOURCE: HMRC, Coronavirus Job Retention Scheme statistics, September 2020.

The very different experience of furloughing across sectors feeds through to sectoral pay growth. Figure 12 shows the huge sectoral variation in pay trends that underlies the headline pay fall. On the one hand, pay growth has been robust in key worker sectors such as education and health and social care, as well as other services (which includes sub-sectors ranging from hairdressing to trade unions and religious organisations). Industries where many workers can work from home, such as finance and professional services, have also been protected from real pay falls. At the other end of the scale, pay in the hospitality sector, which has seen one of the highest rates of furloughing, has fallen by more than 10 per cent.

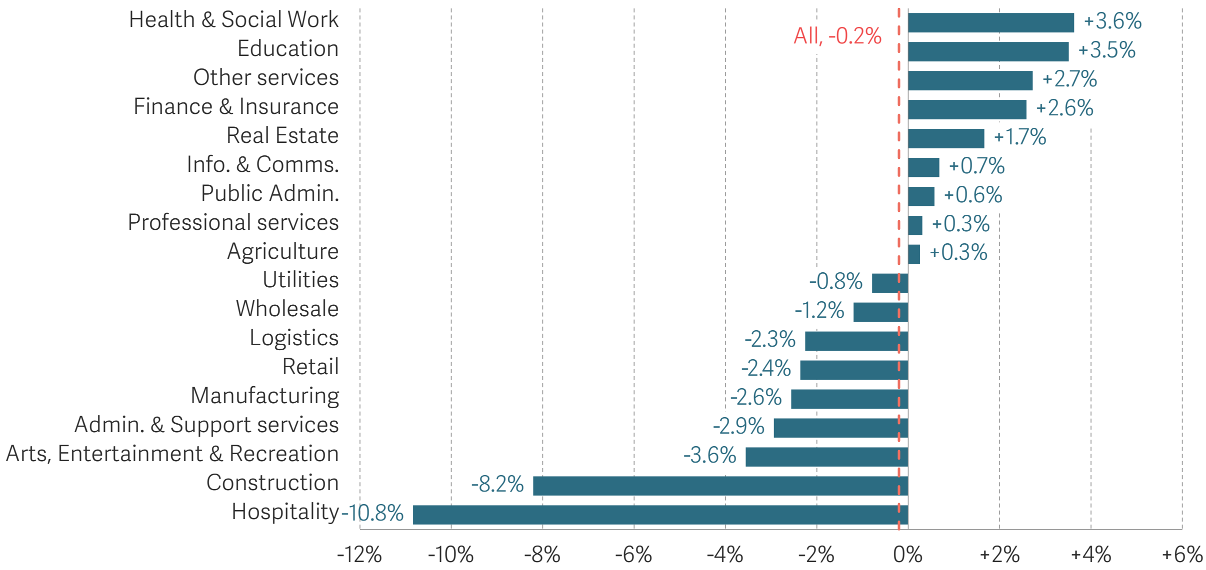
While sector is of central importance, previous research has found that low-paid workers are more likely to have been furloughed even after accounting for the sectors they work in.[15] As we pick up in the discussion below, this could make low-paid workers more vulnerable to the future job losses that many expect to follow the withdrawal of the JRS after October.[16]

15 See: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020, which uses regression analysis to isolate the impact of pay on employees' probability of being furloughed; Office for Budget Responsibility, Fiscal sustainability report, July 2020, which reaches the same conclusion based on analysis of JRS cost data.

16 For example, see: P Gregg, Unemployment: The coming storm, UCL Centre for Education Policy and Equalising Opportunities, June 2020.

FIGURE 12: **Pay has fallen most in many of those sectors most impacted by furloughing**

Real (CPIH-adjusted) annual pay growth, single-month figures by sector: GB, July 2020



NOTES: Growth is year-on-year change in one-month average; pay is regular pay i.e. excludes bonuses and arrears.
SOURCE: RF analysis of ONS, Labour Market Statistics (Average Weekly Earnings).

Low-paid workers have been hardest hit, but not specifically minimum wage workers

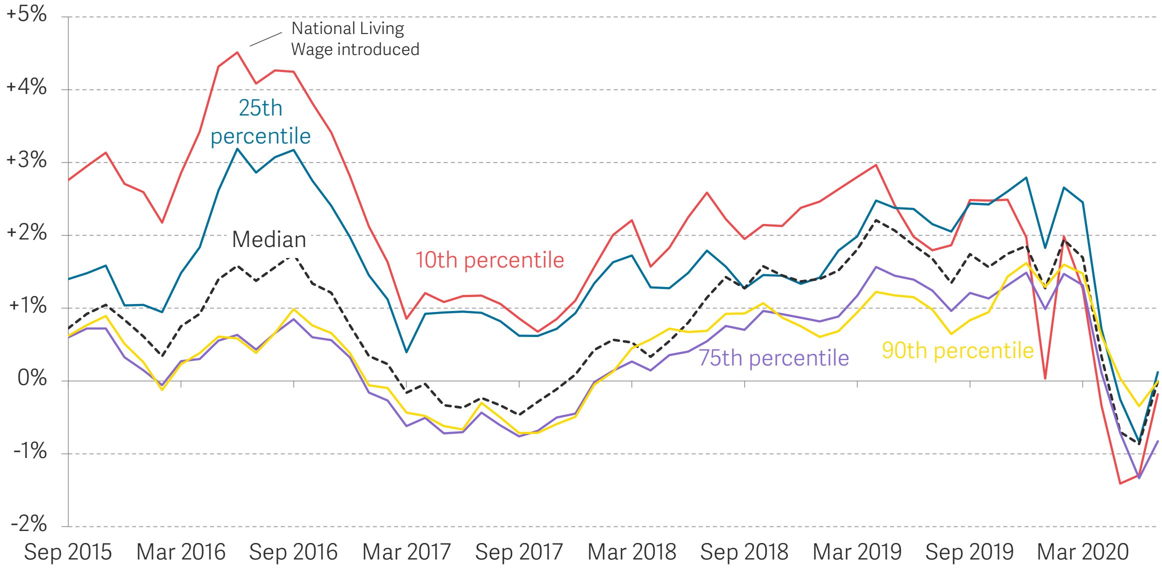
These patterns show up in changes in pay across the earnings distribution. As Figure 13 shows, the headline real pay falls have been felt across the whole distribution, although most strongly at the bottom.[17] Until mid-2019, the pay of the lowest-paid tenth had been growing more quickly than the average across all earners, with particular spikes in pay growth as the NLW was introduced and successively increased (as discussed in relation to our headline measure of low pay in the previous section). Pay growth for the lowest earners became more variable from late 2019 onwards. But as the crisis hit, pay growth plummeted most quickly in the bottom decile, partly reflecting the fact that low earners are more likely to have been furloughed.[18]

17 The distributional breakdown in Figure 4 uses three-month averages, rather than single-month figures, and the latest data point is May-July 2020, so the median line is not comparable to the headline number reported in Figure 3.

18 For example, see: L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

FIGURE 13: **Pay fell more quickly in the bottom decile**

Annual growth in real (CPIH-adjusted) weekly pay, by point in the weekly pay distribution: UK



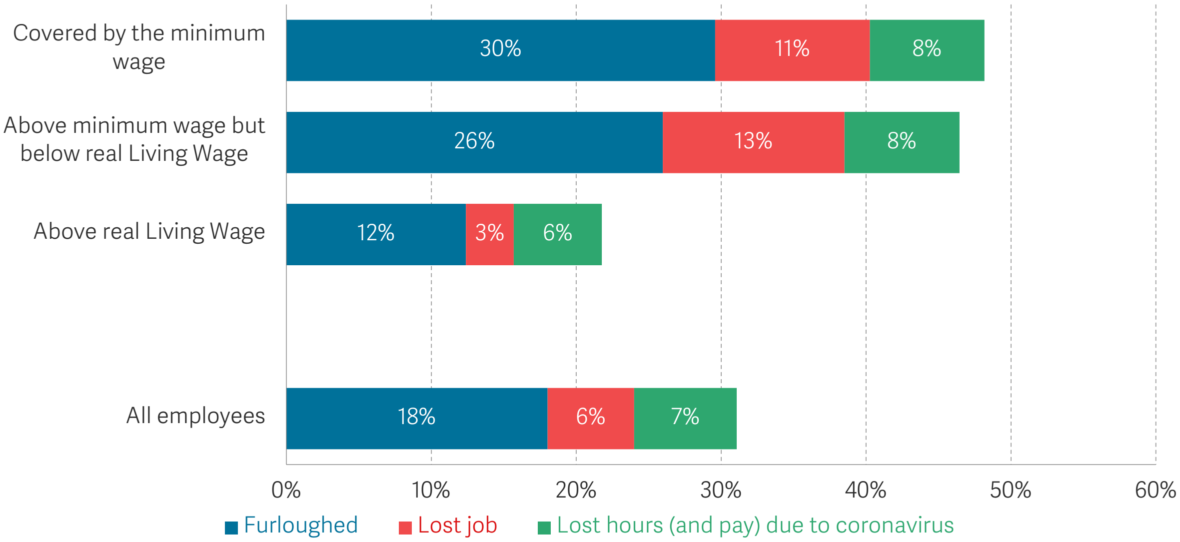
NOTES: Growth is year-on-year change in three-month average. Pay is seasonally adjusted.
SOURCE: RF analysis of ONS, Pay As You Earn (PAYE) Real Time Information (RTI) (Experimental Statistics).

Many low-paid workers, from care workers to supermarket staff, helped to keep Britain afloat during the lockdown, reflected in the fact that just 44 per cent of the lowest-paid workers were working from home in early May (excluding those on furlough) compared to 83 per cent of the highest earners.[19] But both the above discussion and previous Resolution Foundation research suggest that lower-paid workers have also been much more susceptible to the economic hit of the coronavirus crisis, through both furloughing and job losses.[20] Figure 14 uses the latest data from Understanding Society (collected in June) to look at the impact on different groups of low-paid workers. It shows that the disproportionate effect on low-paid workers is not linked to the minimum wage – there is not a significant difference in the economic outcomes of workers paid at the minimum and other low-paid workers (paid below the living wage).

19 L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.
20 For example, see: L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

FIGURE 14: **Low-paid workers have been hardest hit by the crisis, but this is not linked to the minimum wage**

Proportion of employees who have experienced job changes since the coronavirus outbreak, by hourly earnings prior to the outbreak: UK, June 2020



NOTES: Base = all UK adults aged 16-64 who had an employee job prior to the coronavirus outbreak and provided information on their usual earnings prior to the coronavirus outbreak (apart from the 'all employees' category). Earnings are based on gross (before tax) usual employee pay prior to the coronavirus outbreak. As Understanding Society asks only if respondents have ever been furloughed, we proxy for workers who are still on furlough as those who have ever been furloughed and are currently working no hours. 'Furloughed' and 'lost job' relate to employees' main job; 'lost hours and pay due to coronavirus' captures employees not in either of these first two groups who are working fewer hours than their usual hours before the coronavirus outbreak, which they state has happened for coronavirus-related reasons, and who have also experienced decreases in earnings. 'Covered by the minimum wage' refers to workers who are paid up to 1 per cent above the age-specific minimum wage; the London Living Wage rate has been applied to workers who live (rather than work) in London, as a workplace geography variable is not available.
SOURCE: RF analysis of ISER, Understanding Society.

This picture is broadly unchanged compared to April.[21] Across all employees, slightly fewer workers were furloughed in June than in April (down from 21 per cent to 18 per cent) and slightly more workers had lost their job (6 per cent in June compared to 4 per cent in April). There has been similarly little change over time within the different low-paid groups. While it is still early days, the evidence to date does not suggest that employees on the minimum wage have experienced this crisis differently to other low-paid workers.

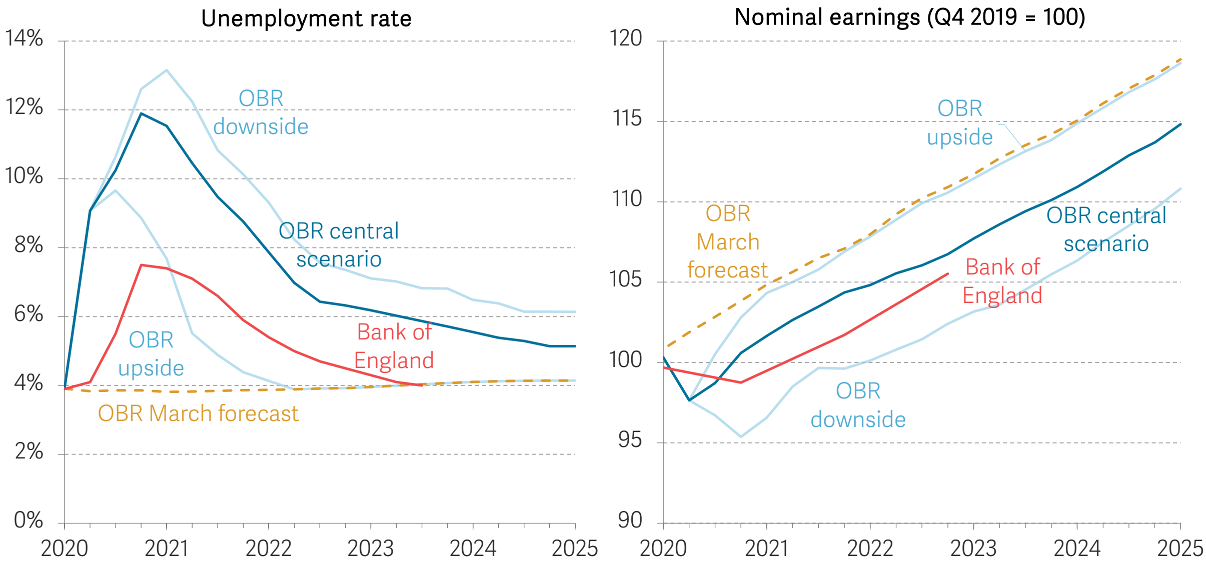
21 For headline April figures, see: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.

The outlook for the labour market is bleak

Based on official forecasts, the outlook for the labour market is bleak (Figure 15), though uncertain. In July, the Office for Budget Responsibility's (OBR's) central scenario estimated that unemployment (including discouraged workers, who count as economically inactive in official data) could rise to almost 12 per cent by the end of 2020, reaching 9.7 per cent even in the upside scenario.[22] This is largely accounted for by workers on the JRS moving into unemployment when the scheme ends.

FIGURE 15: **In the OBR's central scenario, earnings are set to be permanently scarred**

Unemployment rate and index of nominal earnings under different scenarios: UK



NOTES: OBR unemployment projections include discouraged workers, who count as economically inactive in the official statistics and in the Bank of England forecast.
SOURCE: OBR, Fiscal Sustainability Report, July 2020.

Better-than-forecast GDP since the OBR put together its forecast suggests that its central scenario for growth and jobs may be too pessimistic, even in expectation of these coming JRS outflows.[23] The Bank of England's more up-to-date unemployment forecast, also shown in the left-hand panel of Figure 15, is less bleak but also points to job losses rising in the autumn.[24] While the Bank expects the majority of furloughed workers to return to the workplace, it suggests that some workers may become redundant in the worst-affected sectors in particular, while hiring (and so outflows from unemployment) remains depressed. Bank of England forecasts put the unemployment rate at 7.5 per cent

22 Office for Budget Responsibility, Fiscal sustainability report, July 2020.
23 J Leslie & J Smith, Macroeconomic Policy Outlook Q3 2020, September 2020.
24 Bank of England, Monetary Policy Report, August 2020.

in the fourth quarter of 2020 – lower than OBR forecasts (partly due to the fact that the OBR includes discouraged jobseekers in its measure) but still almost double its pre-pandemic rate.

While job losses have only just started showing up in the headline unemployment rate, there are already worrying signs of redundancies to come. Data from the Insolvency Service, which is notified of firms planning more than 20 redundancies, shows that more than 300,000 redundancies were planned in June and July alone – more than six times the rate for the same period last year – even before accounting for employers planning smaller numbers of job cuts.[25] And many big high street names, from John Lewis to Pizza Express, have announced job losses over the summer.[26] With the JRS already being wound down, and set to end entirely at the end of next month, Britain looks set for a spike in unemployment before the end of the year.

Turning to earnings (shown in the right-hand panel of Figure 15), despite only a modest dip in earnings in 2020 as some furloughed workers move onto 80 per cent of their usual pay (and earnings growth remaining positive for the year as a whole in all but the downside scenario), earnings in 2025 remain 3 per cent below the OBR's March forecast in the central scenario. The Bank is more pessimistic in this regard, predicting that earnings will be just 1.7 per cent above 2019 levels in 2021, compared to the OBR's 5.5 per cent, though the gap narrows towards the end of the forecast period.

In part, this discrepancy can be explained by different assumptions around how firms will respond to the crisis as Government support is withdrawn. The OBR's central scenario is based on 15 per cent of furloughed workers moving into unemployment when the JRS ends, meaning a stronger upward pressure on wages from the compositional effects described above. On the other hand, the Bank of England is more optimistic about the share of workers that will return from furlough, though this will suppress average earnings growth compared to the OBR's scenario. The latest data suggests an outcome closer to the Bank's conclusions than the OBR's, though significant uncertainty remains.[27]

The extent of job losses in the autumn will be a critical determinant of both employment figures and wage pressure in the coming years. In the face of considerable uncertainty, policy makers face a difficult task in deciding the next steps for the minimum wage. The next section will consider how they should approach the trade-off between improving pay and protecting jobs.

25 B King, Coronavirus: 300,000 redundancies planned in June and July, BBC News, September 2020.
26 For example, see: D Thomas, H Dempsey & J Eley, UK high street suffers huge jobs losses, Financial Times, July 2020.
27 J Leslie & J Smith, Macroeconomic Policy Outlook Q3 2020, September 2020.

Section 4

Minimum wage policy in the crisis

With much uncertainty about the future path of this crisis, and challenges in measuring current pay growth, policy makers face a difficult task setting the 2021 minimum wage. 2021 was meant to be the first year of the 2021-2024 uprating period, with the National Living Wage set to reach two-thirds of median pay at the end of it. On the basis of last year's forecasts, we would have expected a minimum wage increase of around 50p in April 2021.

But with wage growth expected to be lower than previously forecast, the Low Pay Commission's assumed position of maintaining a smooth path to the target 2024 'bite' would imply a lower increase than that for 2021, and probably one of between 15 to 25p an hour. And there are good reasons to be cautious this year: there are big unknowns about the impact of minimum wage increases in this kind of environment; the key minimum wage sectors are facing the largest demand and supply shocks; and many affected firms are less able to respond to minimum wage increases than in normal times given their low levels of investment and little price flexibility. By contrast, the decision on whether to lower the age threshold for the NLW to 23 in 2021 is less material, because few 23-24 year olds earn their age-specific rate.

Of course, there are risks to employment and family incomes from uprating minimum wages either too fast or too slow. These risks can be mitigated through wider policy choices, not least by protecting the £20-per-week addition to Universal Credit and tax credits that was introduced in April 2020.

The crisis presents a conundrum for minimum wage policy makers

The minimum wage has long been a UK policy success story, particularly since 2016 when, as outlined in Section 2, the introduction of and increases to the National Living Wage have driven down the number of employees in low pay (defined as earning less than two-thirds of median hourly pay). Those increases were made in the context of rising employment and improving overall pay growth. Clearly, the context now could not be more different. As shown in Section 3, the coronavirus crisis has already had a significant impact on the labour market, and low-paid workers have borne the brunt of this, thanks largely to the sectors they work in. With the effects of the pandemic ongoing, but with government support schemes being wound down, it's high likely that the worst of the labour market pain is yet to come (as demonstrated by forecasters' expectations for rising unemployment, as we discussed at the end of the Section 3).

In this environment, what should happen to the minimum wage? Policy makers will, in the next couple of weeks, decide on the rates that will apply from April 2021. Finding the right balance between improving pay and protecting jobs – the ever-present minimum wage dilemma – is a very difficult challenge this year. In this section we look at the decisions facing policy makers as they consider what rates to set for April 2021, as well as the decision about whether to follow through on the plans to lower the age threshold for the NLW to 23-year-olds. In Section 5 we turn to the longer-term question of whether the 2024 target remains the right one.

Setting minimum wage policy in the middle of a downturn is always challenging, given the uncertainty over the economic outlook and the impact on the labour market. But in this crisis there is even more uncertainty than usual. The outlook for the economy depends to a large extent on the path of the pandemic, which, six months since the UK first went into lockdown and with risks of a second wave rising, remains unknown.

Had 2020 turned out as had been expected back in 2019, when the OBR forecast nominal wage growth in 2020 (and 2021) of a little over 3 per cent, then the Low Pay Commission would likely now be recommending an increase in the NLW for 2021 in the region of 50 pence, taking the rate to around £9.20.[28] Given that the LPC's target bite path has already been set out, some employers may even have been planning on this basis. However, with the labour market already feeling the effects of the pandemic, and given the clear risk of a further wave of job losses as the JRS ends, the appropriate uprating for 2021 is far from clear.

Sticking to the planned path for the minimum wage implies the lowest minimum wage increase for a decade in 2021

Helpfully, the uprating process for the NLW that has been in place since 2016 provides an in-built mechanism to deal with changing economic circumstances (our discussion here focuses on the coming NLW increase, on the assuming that youth minimum wage rates will follow a similar path). The Low Pay Commission's 2020 remit asks it to recommend NLW rates that hit a target of two-thirds of median hourly pay (for those workers covered

28 These figures are based on the OBR's projection of average hourly earnings available in the March 2019 Economic and Fiscal Outlook, available at: Office for Budget Responsibility, Economic and Fiscal Outlook – March 2019, March 2019.

by the NLW) by 2024. Because that target is set relative to median pay, it rises and falls in cash terms along with prospects for pay growth. As set out in Section 2, the LPC has some flexibility over the pace at which the NLW approaches the target bite in 2024. If the bite were to increase in a linear fashion (i.e. where the bite rises in equal-sized steps year on year, as happened between 2016 and 2019), then the implied bite in 2021 would be 61.7 per cent. If the LPC was to stick to that approach, what would that mean for the 2021 rate?

BOX 2: **How is minimum wage policy set?**

Since the introduction of the 'National Living Wage' (NLW – the higher minimum wage created for workers age 25+) in 2016, minimum wage policy has been made in reference to a target set by the government. The current remit asks the Low Pay Commission (LPC) to set rates to hit a level of two-thirds of median hourly pay by 2024, subject to economic conditions (note the 'by' – the remit does not specify a path to that target).[29] On the advice of the LPC, the current Government's target is also that the age threshold for eligibility for the NLW should be lowered from its current 25 to 21 by 2024, after first being lowered to age 23 in 2021.[30] There are no targets for the other parts of the minimum wage framework – the youth and apprentice rates and the accommodation offset – which continue to be set by the LPC on the basis of its judgements about the potential employment effects.

The LPC's remit asks it to review economic conditions and to recommend a change to the target or its timeframe if the evidence warrants it. This is referred to as the 'emergency brake'. In this report we only refer to this 'brake' when discussing the 2024 target or the timing of the age thresholds. We don't use this term to refer to its rate setting decision for 2021, since it is possible for the LPC to opt for a small or no increase in 2021, but remain committed to the 2024 target.

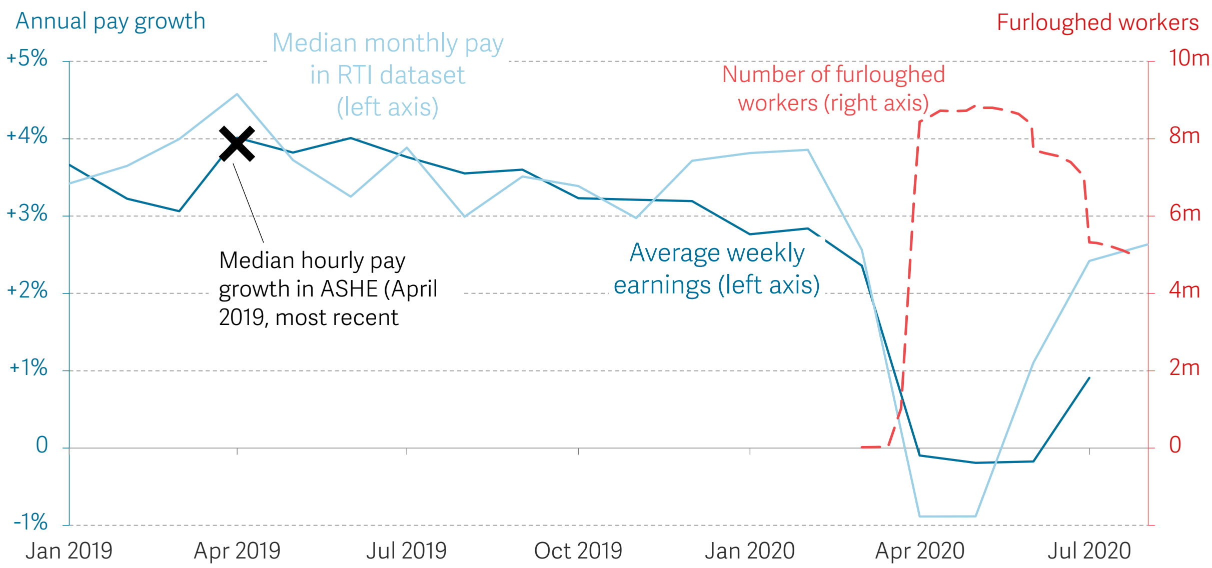
Unfortunately, there are two problems with making this seemingly simple calculation. The first is that the level of current median pay is unclear, because the main timely measures of weekly and monthly pay (the ONS's Average Weekly Earnings series, and HMRC's real-time PAYE data) are both affected by the loss of pay experienced by furloughed workers,

29 Department for Business, Energy and Industrial Strategy, National Minimum Wage and National Living Wage: Low Pay Commission remit 2020, March 2020.
30 Note that the target bite is set relative to the median pay of eligible workers, so if the age threshold is lowered, then the relevant measure of median pay will also fall slightly, because young workers have lower average earnings.

as shown in Figure 16 (which provides a more granular picture of the recent past than Figure 10 in the previous section). These measures of recent pay growth would usually be combined with the last high-quality data on median hourly pay, which comes from the Annual Survey of Hours and Earnings in April 2019, to provide an estimate of current median pay. But without knowing what part of the recent fall in pay growth is down to the furlough scheme and what part to underlying trends, current median hourly pay is uncertain.

FIGURE 16: **Our main measures of pay growth have been affected by the loss of pay experienced by furloughed workers**

Nominal annual pay growth and the number of furloughed workers: GB/UK



NOTES: Pay is regular pay i.e. excludes bonuses and arrears, in the AWE series (covering GB) and total pay in the RTI series (covering the UK). In these two series, growth is year-on-year change in one-month average. ASHE median hourly pay is regular pay (i.e. excluding overtime).
SOURCE: ONS, Labour Market Statistics; ONS, Annual Survey of Hours and Earnings; HMRC, Coronavirus Job Retention Scheme statistics, September 2020.

The problems with the usual measures of recent pay growth mean that the LPC will be much more reliant on forecasts. And these in turn will be much more uncertain than usual, as we can see from their wide range, depending on forecasters' expectations about the progress of the pandemic and its impact on the labour market.[31] For example, the OBR's central forecast for nominal pay growth between 2019 and 2021 is a 4.7 per cent increase over these two years combined. But its downside and upside scenarios range from 0.9 per cent (downside) to 7.1 per cent (upside).[32] The Bank of England's pay forecast

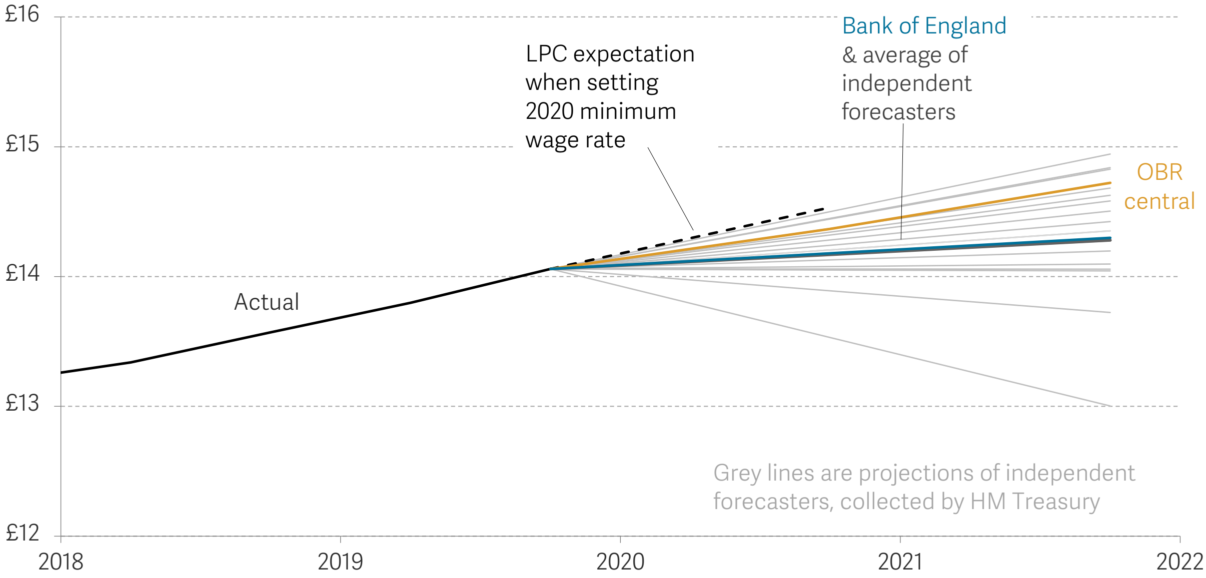
31 Because the forecasts published by the main forecasts also include the furlough effects, in this section we use the mid-point of forecasters' 2019 and 2021 forecasts as their 2020 forecast. This is, of course, a large simplifying assumption, but, since we are considering 2021 policy options, what really matters is the 2021 forecast point.
32 Office for Budget Responsibility, Fiscal Sustainability Report – July 2020, July 2020.

is more pessimistic than the OBR's central scenario, with a forecast of 1.7 per cent pay growth between 2019 and 2021. As detailed in Section 3, these differing outlooks for pay reflect different assumptions about the size of the economic hit resulting from the pandemic, and about how the fall in output is effectively split between hits to jobs and pay: the Bank of England expects lower unemployment (more labour hoarding), but lower productivity and pay growth partly as a result.[33]

The forecasts of both official forecasters, along with those of a number of independent forecasters (those collected by HM Treasury and made within the last three months[34]) are shown in Figure 17. We have used the forecasts to extrapolate median hourly pay for those and 25 or over, which is the relevant benchmark for the NLW (at least until the age threshold is lowered, when the age range of the relevant median will come down in turn). The OBR's central scenario (which is more out of date, having been made in July) is at the higher end of this range, while the Bank of England's forecast is central, and very close to the average of the independent forecasters.

FIGURE 17: **The outlook for wages is uncertain, but wage growth is very likely to be lower than anticipated last year**

Nominal median hourly pay for 25+-year-olds, actual, and various forecasts: UK



NOTES: 25+ median is derived from bite of adult minimum wage, based on Low Pay Commission data. Forecasts are shown 'seeing through' the 2020 forecast period, to remove the effect of the lower pay received by furloughed workers. That is, the 2020 forecast is just a linear interpolation between the 2019 actual and the forecast for 2021. Forecasts are for average weekly earnings, which we apply to hourly pay. Only independent forecasts made in the last three months are shown.
SOURCE: RF analysis of Low Pay Commission, 2019 report; OBR, Fiscal Sustainability Report, July 2020; Bank of England, August Monetary Policy Report, August 2020; HM Treasury, Forecasts for the UK Economy, September 2020.

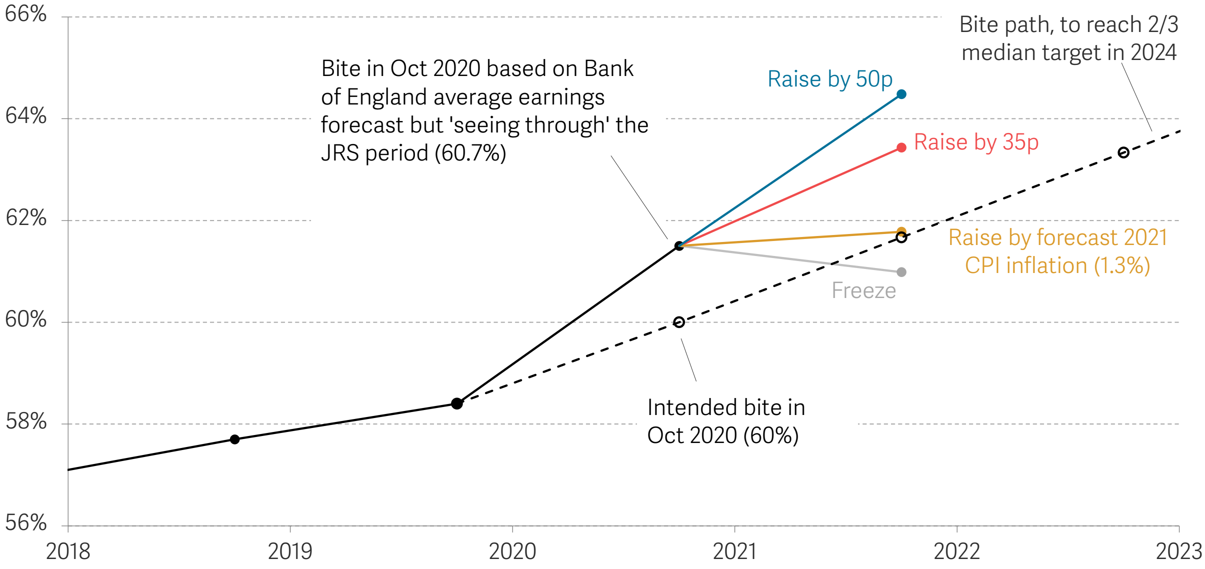
33 J Leslie & J Smith, Macroeconomic Policy Outlook Q3 2020, September 2020.
34 HM Treasury, Forecasts for the UK Economy, September 2020.

The implication of these forecasts, which 'see through' furloughing effects in 2020 by drawing a straight path between 2019 and 2021, is that the April 2020 NLW uprating has already 'overshot' the target path to 2024. This is shown in Figure 18, which takes the Bank of England's wage forecast (which is fairly central in the range of available forecasts) and shows what is likely to have happened to the NLW bite in 2020, and would happen to the bite in 2021 under different uprating scenarios. The April 2020 uprating of 51p is likely to have brought us to a bite of 60.7 per cent in October 2020, higher than the intended 60 per cent.

Figure 18 also shows that the Bank of England's forecast implies that a low 10p uprating (to £8.82) would keep the bite on its target path. Coincidentally, this is essentially the same as the 11p increase that would follow from uprating based on the OBR's forecast for CPI inflation, shown in yellow.[35] A 50p uprating would, based on this wage forecast, push the bite up substantially in 2021, to over 64 per cent, taking the NLW two-thirds of the way towards its 2024 target. Meanwhile, a policy of freezing the minimum wage in cash terms, which can be considered the lower bound of what policy makers are likely to consider, would take the bite below its target path on the Bank of England's pay outlook.

FIGURE 18: **The Bank of England's wage projection suggests a 10p uprating would keep the NLW on course to hit its 2024 target**

Bite of the NLW relative to 25+-year-old median hourly pay: actual, and various scenarios: UK



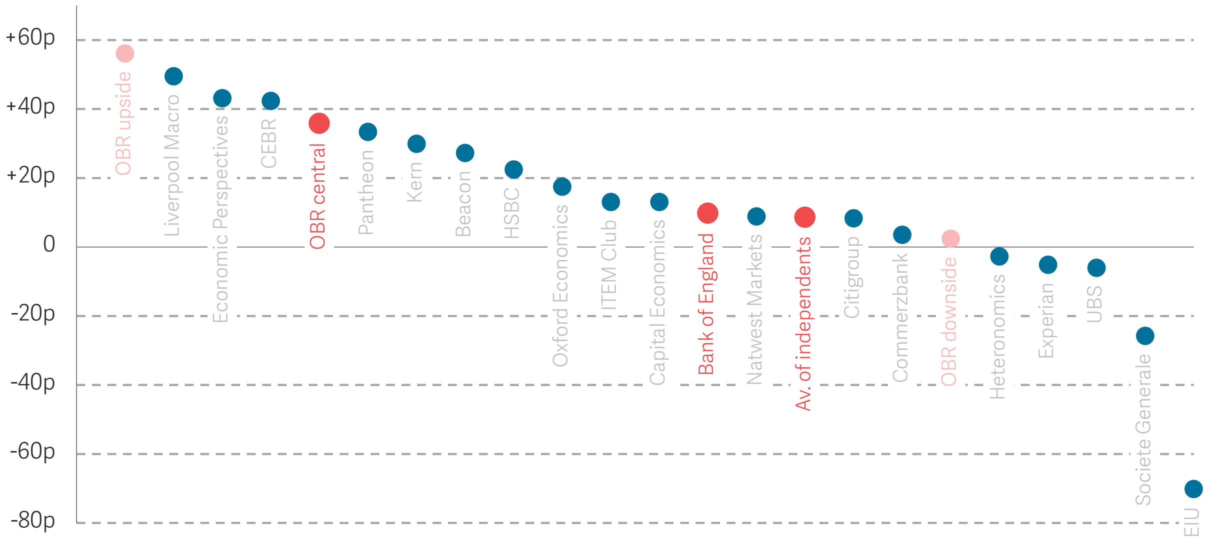
NOTES: See notes to Figure 17.
SOURCE: RF analysis of Low Pay Commission, 2019 report; Bank of England, August Monetary Policy Report, August 2020.

35 Note the OBR's forecast of 1.3 per cent inflation in 2021 is somewhat lower than the 1.8 per cent for Q3 2021 in the Bank of England's projection. See: Office for Budget Responsibility, Fiscal Sustainability Report – July 2020, July 2020.

What do the wage projections of the broader range of forecasters imply for the NLW rate in 2021? Figure 19, below, takes the wage forecasts in Figure 17, applies the 61.7 per cent bite (i.e. assuming the LPC sticks to a smooth path to the 2024 target), and derives the implied cash increase for next year's uprating. Because the wage forecasts vary, so do the implied upratings. However, the forecasts are centred around the 10-20p range, with a median figure of 13p. That is substantially lower than the 50p uprating that would have been expected in 2021 based on pre-pandemic trends, and reflects the deterioration in prospects for the economy as a whole, and for pay growth in particular.

FIGURE 19: **Earnings forecasts suggest that uprating the minimum wage by around 15p in 2021 is likely to return it to its target path**

The 2021 increase in the NLW needed to return it to its target path, based on earnings projections from official and independent forecasters: UK



NOTES: See notes to Figure 17.
SOURCE: RF analysis of Low Pay Commission, 2019 report; OBR, Fiscal Sustainability Report, July 2020; Bank of England, August Monetary Policy Report, August 2020; HM Treasury, Forecasts for the UK Economy, September 2020.

An uprating of 13p would be the lowest cash uprating for a decade, when a similarly cautious approach to upratings was taken, during and following the financial crisis. As now, the Low Pay Commission was then operating in the face of an uncertain economy. For three years in a row (2008, 2009 and 2010) the LPC recommended small upratings to the adult minimum wage (the main rate at the time), the lowest being the 7p increase in 2010. We have assumed so far that the LPC will stick to its target of increasing the bite each year, but in that period the LPC's recommendations were for upratings below forecast average earnings growth, and so implying a falling bite. This was most apparent in 2009, when earnings growth was forecast to be 2.7 per cent, and the LPC suggested a rise in the adult rate of 1.2 per cent (7p). In fact, average wage growth in 2010 ended up coming in at 1.3 per cent, lower than expected, which meant the bite was essentially unchanged – a less cautious uprating than was intended. The good news is that the evidence from that period did not link the minimum wage to significant negative employment effects. For example, one study found evidence of small impacts on employment retention of female part-time workers, but no impact on other low-paid workers, and no evidence that the effect of the NMW on employment retention and hours during the recession was different from previous years.[36]

There are good reasons for the LPC to take a cautious approach in 2021

So far we have discussed what we expect policy makers to do, concluding that a low uprating to the NLW is most likely. Would that be the right decision? Unfortunately, given the uncertain economic outlook, and the particular features of this crisis, caution does appear to be the order of the day.

There are three key reasons to be cautious when considering how to uprate the 2021 minimum wage. First, there are concerns that are common to setting minimum wages in any downturn. If the minimum wage is at, or close to, its optimal bite (which we do not know in advance) then overshooting in an environment of weak demand carries greater employment risks. It is preferable for policy to locate and test the optimal bite when demand is stronger, at which point any overshoot would have a more benign impact on jobs.

Second, employers are likely to have less ability to adjust to minimum wage increases in a downturn. Besides cutting demand for labour (which, broadly speaking, the empirical evidence finds either does not happen or only happens to a small extent), the main ways businesses can respond to minimum wage increases are by raising prices, making investments to raise the productivity of their workers, or accepting lower profits. The balance of these depends on the constraints facing particular firms or sectors (for example, businesses with price-sensitive customers are unlikely to raise prices).[37] But in a downturn there is a risk that these non-labour-reducing options are less available to firms, or less likely to be taken up, and this makes adjustment through lower demand for labour more likely. For example, it may be harder for firms to raise prices in an environment of weak demand (particularly in the most affected sectors where the demand shock is concentrated, as discussed below); investment to improve productivity

36 R Dickens, R Riley & D Wilkinson, Re-examining the impact of the national minimum wage on earnings employment and hours: the importance of recession and firm size, Low Pay Commission, January 2012.

37 A brief summary of the evidence of business responses to minimum wages is in Chapter 4 of: A Dube, Impacts of minimum wages: Review of the international evidence, Department for Business, Energy and Industrial Strategy and HM Treasury, November 2019.

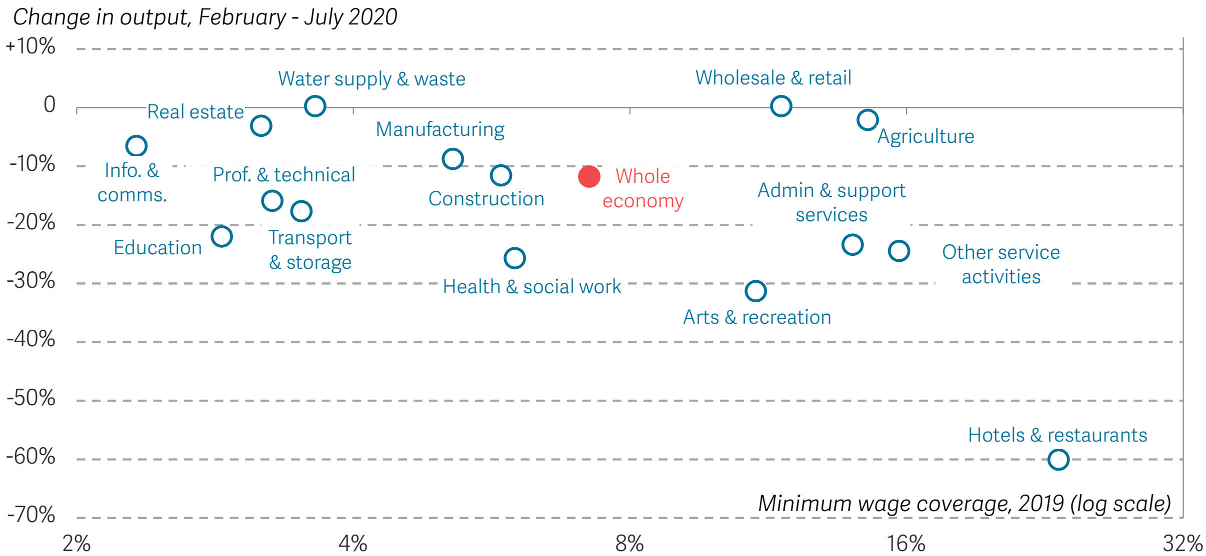
is likely to be inhibited by high uncertainty (business investment was down 31 per cent on the previous quarter in Q2 2020[38]); and firms' weakened balance sheets are likely to both mean that there is less money available for investment and less room to reduce profit margins. On the last of these points, we may be particularly concerned in this downturn, given that net private non-financial firm profits were lower at the end of 2019 than they were in 2008.[39]

Third, all of those concerns are amplified in this crisis, because it is concentrated on low-paying sectors. Low-paying sectors that are heavily affected by the coronavirus crisis will face both the biggest impact of any minimum wage rises, and also the biggest constraints to adjustment, as outlined above. Figure 20 compares the coverage of the minimum wage (the proportion of workers paid at or below the minimum wage) with the scale of the contraction in output in the crisis (comparing GVA in July and February 2020). Across the economy as a whole, minimum wage coverage was 7 per cent last year, and output in July was 12 per cent down on February. Several sectors with above-average minimum wage coverage (broadly speaking, sectors encompassing the face-to-face service economy) have experienced more significant contractions than this. The most severely affected is the hospitality sector, where output in July was 60 per cent down on February, and where close to one-in-four workers was paid the minimum wage in 2019. Of course, this data shows the scale of contraction in the lockdown period, and the picture will be improved by next April. But in relative (between-sector) terms, if not in scale, the ongoing effects of the crisis are likely to reflect the impact seen during the initial lockdown, given the potential for further restrictions or changed behaviour limiting demand, and further social-distancing requirements limiting supply. So the point that minimum-wage-paying sectors are more vulnerable to the effects of this crisis is likely to stand.[40]

38 Source: ONS, Business Investment statistics (series identifier 'NPEL').
39 Net private non-financial profits were just above 9 per cent at the end of 2019, down from around 11 per cent in 2008 – meaning firms went into this crisis in a weaker position thanbefore the financial crisis. See: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.
40 One argument against the concerns we have outlined here comes from Martin Sandbu, who has argued that, because businesses will be facing pressure to make adjustments to their operations in this crisis, now is actually a good time to raise the minimum wage, because adjustments to the minimum wage can be made alongside those other adjustments. While an appealing idea, this seems optimistic, and understates the constraints businesses face to investing in this period. Business investment was down 31 per cent on the previous quarter in Q2 2020. And in the harder-hit sectors, many businesses will be facing tough financial conditions, more so as the crisis endures. In August, 23 per cent of businesses in hospitality reported that they are at risk of insolvency, compared to 11 per cent of businesses across the economy. See: M Sandbu, There is no trade-off between quality and quantity of jobs, Financial Times, September 2020; ONS, Business Investment statistics (series identifier 'NPEL'); ONS, Business Impact of Coronavirus Survey, Wave 12.

FIGURE 20: **Sectors with a large share of workers on the minimum wage have so far, in general, experienced bigger contractions during the pandemic**

Minimum wage coverage in 2019 and the contraction in output from February to July 2020, by sector: GB/UK



NOTES: Minimum wage coverage is defined as the proportion of workers earning at or below their age-specific minimum rate plus 1 per cent. Minimum wage coverage relates to GB only, sectoral output relates to the whole of the UK.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings; and ONS, Monthly GDP estimate, September 2020.

While there is a voluminous literature on the effects of minimum wages in general, we know very little about how the minimum wage is likely to work in a crisis like this one, with lower-paying sectors facing both demand and supply shocks. As above, our view is that makes it more likely that firms will respond to minimum wage increases by reducing labour demand, which would lead us to recommend a cautious approach, but we cannot be sure.

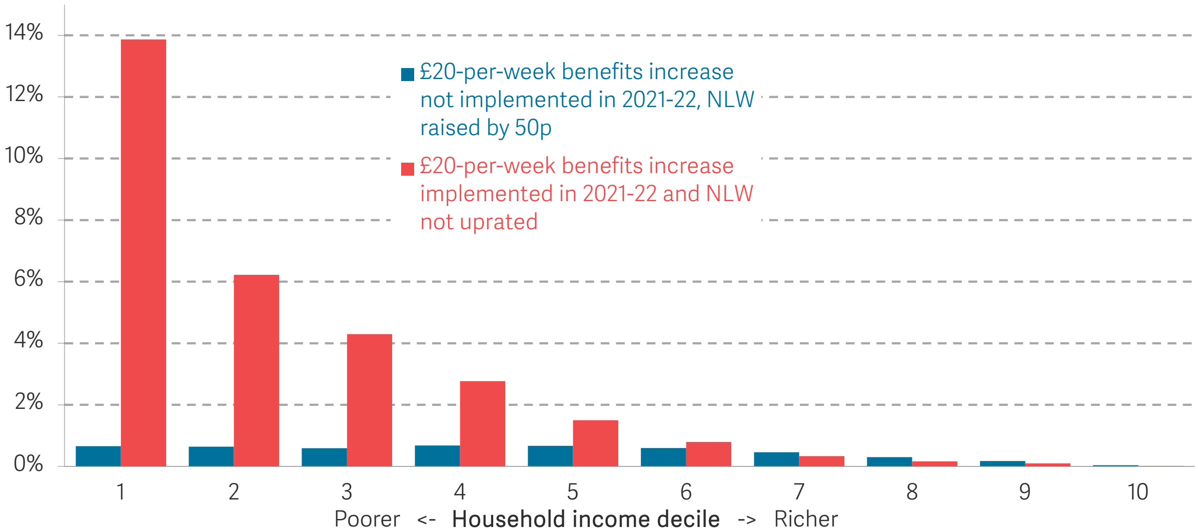
The Government should support workers with other policies

Current levels of uncertainty about the economic context and the future path of the labour market means that there are risks in both directions in setting the minimum wage – too high a rise is a risk to employment, and too low is a risk to family incomes. These risks can be eased by broader government policies that can be used to support jobs and living standards as this crisis continues.

On incomes, the clear priority for the Government is to protect the improvements made to Universal Credit in April 2020. The basic entitlement was increased by £20 per week, and the Government has not yet committed to maintaining this increase in 2021 and beyond. As Figure 21 shows, the impact of this policy on the incomes of the least welloff dwarfs the impact that even the previously-expected 50p increase to the minimum wage would have in 2021, particularly for those on the lowest incomes. This reflects the different scale of the two policies, and the fact that not all minimum wage workers are in low-income households (and many of the lowest-income households have few or no adults in work).[41]

FIGURE 21: **Maintaining the £20-per-week benefits increase introduced earlier this year would provide a much bigger boost to low-income households than any plausible minimum wage uprating**

Change in net household income, compared to a 2021-22 scenario where NLW not uprated and UC reverts to 2019 level, by household income decile: UK, 2021-22



NOTES: Income distribution covers households of all ages. Assumes full take-up of benefits and full roll-out of Universal Credit. Increase in NLW assumed to have spill-over effects to 30th earnings percentile.
SOURCE: RF modelling using IPPR tax benefit model.

The difference between these two policies for the poorest deciles is stark. Under a scenario where the £20-per-week increase to benefits is not maintained in 2021-22, and where there is no increase in the NLW, we estimate that average equivalized income in the bottom decile in 2021-22 would be just £128 per week. This rises by just £1 (an increase of just 0.7 per cent) if the NLW is uprated by 50p – which, as we have shown, is likely to be higher than the actual NLW uprating we can expect. On the other hand, maintaining the £20-per-week benefits uplift for 2021-22 would increase average weekly incomes in the bottom decile next year to £146, a 14 per cent uplift.

To help mitigate the risk of a too-high minimum wage increase, broader support for the hardest-hit sectors will also be needed. As we have argued in previous reports, some

41 For a more in-depth discussion of the distributional implications of minimum wage increases, see: M. Brewer and P. De Agostini, The National Minimum Wage, the National Living Wage and the tax and benefit system, The Low Pay Commission, 2017.

sectors will continue to face supply constraints along with weaker demand in the pre-vaccine phase of this crisis, and policies like wage subsidies should be considered to maintain jobs in these sectors while the prospects for re-allocation to other parts of the economy on the scale needed appear low.[42] Alongside this, both broad and sectorally-targeted fiscal support will be necessary.[43]

The age threshold of the adult rate should be lowered to 23 as planned

The path of the overall rate is the biggest question facing policy makers, but policy makes also need to confirm the age threshold for the NLW, which is due to be lowered from 25 to 23 in April 2021.

This crisis has already had a significant impact on young people's labour market outcomes. Our survey from early in the crisis found that one third of employees age 18-24 had lost their job or been furloughed, compared to 1 in 6 prime age adults.[44] More recently, it is youth employment that has started to fall in the ONS's Labour Force Survey data, with employment among 16-24 year olds falling by 156,000 on the previous quarter in the three months to July, while prime-age employment continued to rise.[45] It is typical for young people to feel the worst effects of economic downturns, but the coronavirus crisis has amplified this because the worst-affected sectors are also those in which many young people work.[46] This might suggest that we should be even more cautious with the NLW age threshold (and perhaps the path of the youth rates) than the overall rate.

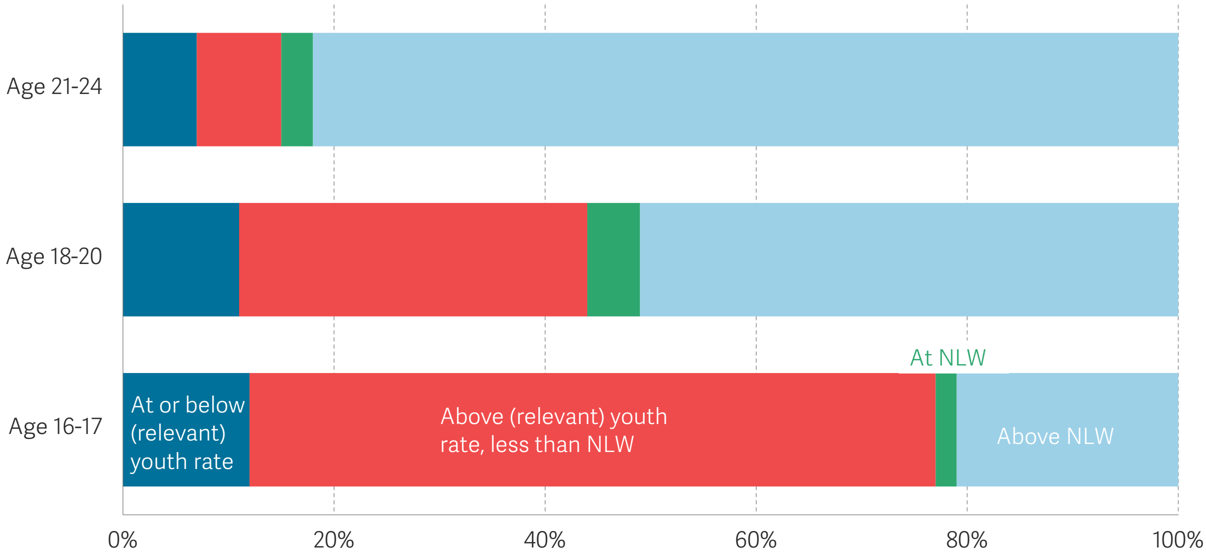
However, we see several practical reasons to proceed with lowering the age threshold. It is sector, not age, that mainly determines the outsized employment effect on young people, and the sectoral impact of this crisis is reflected in our considerations on the path of increases to the NLW (and, by implication, the youth rates) above.

In addition, we note that the vast majority of the 21-24 age group is already paid at or above the NLW. Data from the Low Pay Commission, in Figure 22, shows that only 15 per cent of 21-24-year-olds were paid below the NLW in 2019 (the blue and red bars combined), which was down on the previous year.

42 See: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.
43 See: L Gardiner, J Leslie, C Pacitti & J Smith, Easing does it: Economic policy beyond the lockdown, Resolution Foundation, July 2020.
44 M Gustafsson, Young workers in the coronavirus crisis: Findings from the Resolution Foundation's coronavirus survey. Resolution Foundation, May 2020
45 Office for National Statistics, Labour Market Statistics, September 2020.
46 N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.

FIGURE 22: **Use of the youth minimum wage rates among 21-24-year-olds is low**

Proportion of workers paid at different minimum wage rates, by age group: UK, 2019



NOTES: This is a version of Figure 5.10 from the Low Pay Commission's 2019 report, with the categories condensed slightly.
SOURCE: Low Pay Commission, 2019 report, based on analysis of ONS, Annual Survey of Hours and Earnings.

Furthermore, the evidence from the last time that policy makers lowered the age threshold for the adult minimum wage is encouraging. In 2010, eligibility for the adult minimum wage was lowered from 22 to 21, after several years of recommendations made by the Low Pay Commission. That was also, of course, a period where the youth labour market was weak. But there is no evidence that this change had any negative impact on the employment prospects of 21-year-olds.[47] This has been partly attributed to the fact that employers were told of the change 18 months in advance. They have had similar advance warning of the change due in April 2021.

Finally, lowering the age threshold has support from a broad range of stakeholders. Worker representatives are in favour for obvious reasons, but many employer groups (including those in low-paying sectors) also support the change, favouring the greater simplicity of fewer youth rates.

To sum up our conclusions from this Section, we find that policy makers are likely to opt for a small increase to the NLW in April 2021, perhaps in the region of 15 pence an hour – lower than would have been expected based on pre-pandemic trends. A cautious uprating along these lines is in keeping with expected weak pay growth, and is sensible given the risks to employment in this crisis. However, such an uprating would still keep the NLW on course to hit its 2024 target of ending low pay. In the next section, we set

47 Low Pay Commission, Review of the youth rates of the National Minimum Wage, November 2019.

out why policy makers should stick to this target, and, indeed, should supplement it with other policies to improve the working lives of the low paid.

Section 5

Minimum wage policy in the medium term

This section looks at the longer-term question of whether the 2024 minimum wage target (of ending low pay by lifting the National Living Wage to two-thirds of median hourly pay) remains the right one. We think it is. While there is significant uncertainty about the short-run impact of the minimum wage during this pandemic, in the longer term, the 2024 target has an in-built flexibility. If the pandemic has a lasting negative effect on productivity and pay, this will be reflected in a lower nominal target. And we have lots of evidence about the impact of raising the wage floor in more normal times – employment effects have proved to be small, even in those countries where the minimum wage has been pushed to levels similar to the UK's ambition for the coming years.

In this section we also show that one of the concerns around raising the minimum wage – that it would lead to a large bunching of workers on the wage floor, with wage differentials disappearing – appears overstated. Coverage rose and wage differentials were squeezed in 2016, but there has been little change since then. Instead, employers have been able to protect wage differentials. That doesn't mean that there aren't challenges. Maintaining those gaps is easier in a buoyant economy and a tight labour market, and there is now greater uncertainty about the future. But this recent history, along with the weight of evidence on the minimal negative employment effects of minimum wage increases, means we should stick to the 2024 target of 'ending low pay' (while continuing to actively monitor the evidence and being prepared to change course if needed). Alongside a rising wage floor, other policies to improve the lives of the low paid are needed, such as more generous sick pay, more control over hours and shifts, and wider access to, and better enforcement of, existing rights.

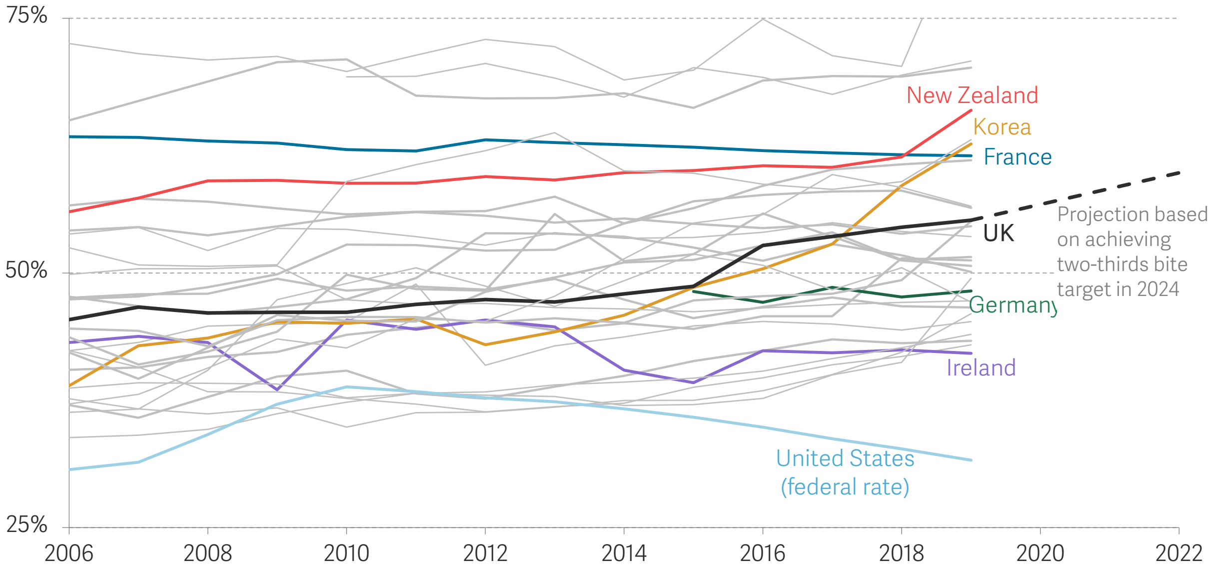
Ending low pay by 2024 is an ambitious target…

The previous section looked at the short-term decisions facing the Low Pay Commission: what rate to set for the National Living Wage in 2021, and whether to lower the age threshold to 23. We concluded that a cautious uprating is likely, and sensible given the scale of the uncertainty facing the economy and the pressure on particular sectors. In this section, we look at minimum wage policy in the medium term, and ask whether the LPC should consider pulling the 'emergency brake' (see Box 2 in the previous section), and seek to change the 2024 target.

The Government set the Low Pay Commission a new remit in 2020: to recommend levels of the National Living Wage to achieve a bite of two-thirds of median hourly pay (for workers of the ages covered by this rate) in 2024, subject to economic conditions allowing it. Because low pay is commonly defined as earning less than two-thirds of median hourly pay (for workers of all ages[48]), reaching this target would effectively end low pay, on this measure. This is an ambitious target. The UK already has one of the highest minimum wages (relative to median pay) among developed economies, and reaching a two-thirds bite in 2024 would likely take the UK further towards the top of the international league table. Figure 23 shows the bite of the minimum wage among OECD countries, expressed relative to full-time median hourly pay, and shows the UK's indicative path for the coming years if it sticks with its 2024 target.

FIGURE 23: **Achieving the LPC's remit for 2024 would cause the UK's minimum wage to rise higher relative to minimum wages in other countries**

Bite of adult minimum wage relative to median hourly pay among full-time workers in OECD countries, and projection for UK based on achieving 2024 target



NOTES: The bite is here expressed relative to median hourly pay for full-time workers, whereas the UK policy target is set relative to the median hourly pay of all workers (of the relevant age). The forecast path for the UK, shown in the dotted line, is the path of the bite relative to full-time pay if full-time pay and overall median pay grow in line with the Bank of England's forecast for average earnings growth, and if the minimum wage is set at 63.3 per cent of the overall median in 2022 (i.e. half way between the 60 per cent target in 2020 and the two-thirds target in 2024).
SOURCE: RF analysis of OECD; Bank of England, August Monetary Policy Report, August 2020.

48 Because median hourly pay across all age groups is always slightly lower than the median for those who the NLW is intended to cover in 2024 (21+-year-olds), the NLW will in practice be slightly above our preferred measure of low pay.

...And one that we should stick to

The question is, given the uncertainty surrounding the pandemic, should policy makers stick to this target? We think they should, for three main reasons.

The first is that much of the labour market shock we are currently grappling with should be temporary, in expectation of a vaccine or effective treatment. And to the extent that it has longer-lasting effects, the target is responsive to these changed economic circumstances. It's certainly true that the pandemic has had a negative impact on productivity and pay in the short term, particularly in low-paying sectors, and it's possible that some of these effects will prove permanent. But in so far as they do, they will be reflected in median pay growth, and because the NLW target is set relative to median pay, it will adjust accordingly. So, the fact that the medium-term outlook for pay growth may worsen as a result of the pandemic does not mean that the 2024 target is any more ambitious than it was pre-pandemic. The responsiveness of this type of target was shown in the previous section, where the change in outlook for 2021 implies a target NLW rate around 30-40p lower next year than would have been expected based on pre-pandemic trends.

Second, there is now a very large body of evidence on the impact of raising the wage floor in more normal times. This is summarised in Box 3. Broadly speaking, the analysis continues to find limited or no employment effects as a result of raising the minimum wage. As Arin Dube's review in 2019 showed, this is true even in countries where the minimum wage has been raised to more ambitious levels, comparable to current policy in the UK.[49] The conclusion from that review still stands: that there is room to explore a minimum wage set at a higher bite. Crucially, of course, policy makers must continue to monitor the evidence, looking for signs of significant employment effects, and be prepared to change tack if necessary. The Government can help by providing better access to administrative pay data. But these facts aren't changed by the pandemic – post-pandemic, continued steady increases in the bite, alongside careful reviewing of the evidence, remains the right approach.

49 A Dube, Impacts of minimum wages: Review of the international evidence, Department for Business, Energy and Industrial Strategy and HM Treasury, November 2019.

BOX 3: The latest evidence on the impact of the minimum wage

There is a vast literature on the effects of minimum wages. This tends to focus on whether they hurt low-paid workers' employment prospects, but there is also research into the impacts on businesses (such as whether the minimum wage eats into businesses profits or spurs productivity-enhancing investments). In advance of setting the LPC's new 'end low pay' remit, the previous Government commissioned Arin Dube, one of the leading experts on the impact of minimum wages, to review the evidence.[50] He found, considering the most up-to-date evidence from the UK, US and elsewhere, that the evidence points to a "very muted effect of minimum wages on employment, while significantly increasing the earnings of low-paid workers". Specifically, he found that the median 'own wage elasticity' (the change in employment of those whose wages are affected by the minimum wage) across those studies was -0.17, meaning the proportionate impact on employment from an increase in the minimum wage is a sixth as large as the impact on those workers' pay. This is considered a 'small' impact in economic terms. Importantly, he also reviewed studies of settings where the bite of the minimum wage is high (as it is in the UK) and found similar results.

Many of the UK studies he looked at were those that have been commissioned by the LPC in its role, over many years, of reviewing the impact of the minimum wage in the UK. Its 2019 round of reports (which studied upratings up to 2018) continued to find no significant negative employment effects overall, although some studies have identified small effects on part-time female employment in some years.[51]

Perhaps the most interesting research in recent years has come from Germany, where a minimum wage was introduced in 2015. One study found that the minimum wage was causing low-paid workers to reallocate from small, low-productivity firms to larger, higher-productivity firms.[52] This is an interesting result because it may help square the circle of the general findings in the literature of strong wage effects, minimal or no employment effects, and fairly small within-firm effects on productivity and profits. It also gives reason for optimism for minimum wages to induce positive economic change. A diversity of findings on employment effects has a long tradition in minimum wage research, however, which means it's usually better to defer to studies like Arin Dube's review which look across the literature as a whole.

50 A Dube, Impacts of minimum wages: Review of the international evidence, Department for Business, Energy and Industrial Strategy and HM Treasury, November 2019.
51 For a summary of the LPC's 2019 commissioned work, see Annex 2 of: Low Pay Commission, Low Pay Commission Report 2019, January 2020.
52 C Dustmann et al., Reallocation Effects of the Minimum Wage: Evidence From Germany, July 2019.

The coverage of the minimum wage hasn't increased since 2016

On top of the flexibility of the target, and the weight of the evidence that suggests further increases are possible, we can also add a third reason to stick to the 2024 target. This relates to a concern that a rising minimum wage leads to ever-increasing bunching of workers on the wage floor, and the erosion of pay differentials between workers doing different jobs or of different skill levels. This is thought to be a concern because of the potential negative effects on workers' incentives to progress out of low pay (i.e. why take on additional responsibilities if the gain is very small), or because of negative effects on worker morale if the relative returns to skills and experience are diminished.[53]

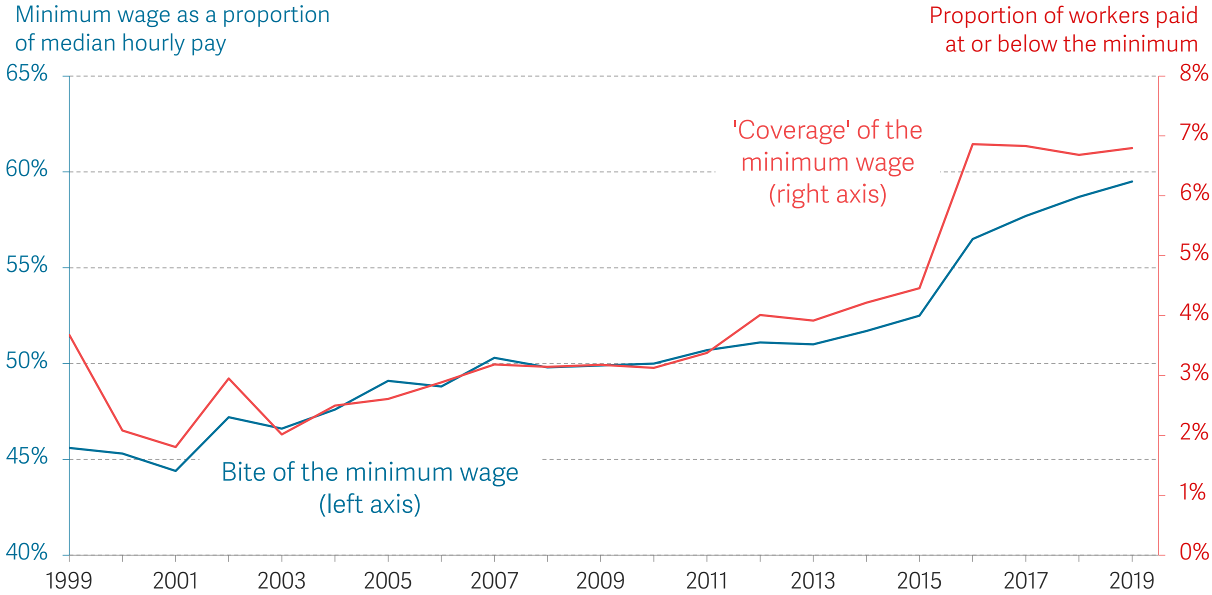
This concern is well founded. Over time, the 'coverage' of the minimum wage (the proportion of workers paid at or below the wage floor) has tended to rise in line with its bite (the level of the minimum wage relative to median hourly pay). Figure 24 shows that this relationship between coverage and the bite has been a close one. Between 2003 and 2015, for every 1 percentage point rise in the bite, the coverage of the minimum wage rose by about 0.4 percentage points. On this basis, it was reasonable to expect coverage to continue to rise in the post-2016 period. With the future bite path known and set to increase substantially, we expected coverage to follow suit (between 2016 and 2018, for example, our forecasts of coverage in 2019 were between 10 and 18 per cent – a steep rise, based on a steeply rising bite).[54]

In fact, since a sharp increase in 2016, coverage has not changed, remaining steady at just below 7 per cent. This is despite the bite of the minimum wage continuing to rise in this period (from 56.5 per cent in 2016 to 59.5 per cent in 2019). This means that, since 2016, pay in jobs paid close to but above the minimum wage has also been pushed up by minimum wage increases, meaning those jobs have not become minimum wage jobs. This is referred to in the literature as the 'spill-over effect', where minimum wage increases affect the pay of not just those earning at the new minimum but also some higher earners. The most recent study on the subject (looking at upratings between 2016 and 2018) finds that these spill-over effects are felt as high as the 30th percentile of hourly pay, which in 2019 corresponded to an hourly pay figure of £10.15 (for reference, this is about £2 below the median).[55]

53 For a discussion of the impact of the minimum wage on wage differentials, see: S Avram & S Harkness, The NMW/NLW and progression out of minimum wage jobs in the UK, December 2019.
54 For example, see: C D'Arcy, Low Pay Britain 2018, Resolution Foundation, May 2018.
55 S Avram & S Harkness, The impact of minimum wage upratings on wage growth and the wage distribution, Low Pay Commission, November 2019.

FIGURE 24: **Coverage of the minimum wage has not increased since 2016, despite the bite continuing to rise**

Coverage and bite of the adult minimum wage, workers aged 25+: UK



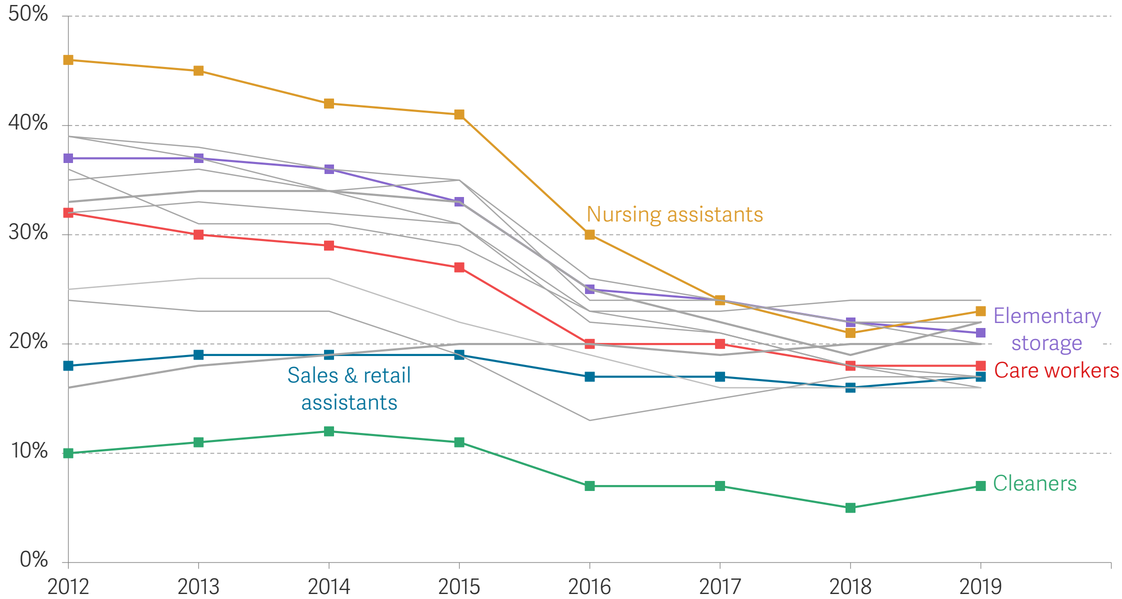
SOURCE: Low Pay Commission, 2019 report; RF analysis of ONS, Annual Survey of Hours and Earnings.

Another way of observing spill-over effects, or the ability of employers to preserve pay differentials, is seen in Figure 25, below. This shows the gap between median pay and the wage floor in the largest low-paying occupations. It's clear that the introduction of the NLW in 2016 did lead to considerable pay compression. For example, median pay among nursing assistants was 41 per cent above the wage floor in 2015, and only 30 per cent above in 2016. Similarly, the gap between median pay for care workers and the wage floor fell from 27 per cent in 2015 to 20 per cent in 2016. Broadly speaking, however, these reductions have not continued year on year; gaps between median pay in the biggest low-paying occupations and the wage floor have been fairly stable since 2016. There are even some signs of the gaps widening in the 2019 data: this is true for sales and retail assistants, nursing assistants, and cleaners.

The fact that bunching on the wage floor or pay compression above the minimum wage stabilised after 2016 is good news for low-paid workers (for the progression- and morale-related reasons mentioned above). But it might also be good news for those targeting further minimum wage increases. Since employers also have an interest in protecting pay differentials, had they not done so, we might infer that they were close to their limit in terms of their ability afford pay rises for low-paid workers. But the fact that pay differentials have persisted, and bunching at the minimum wage has stabilised, is a cause for optimism about the prospects for further minimum wage rises in the years ahead.

FIGURE 25: **Since 2016, typical pay has not moved any closer to the minimum wage in many low-paying occupations**

Gap between median pay in selected low-paying occupations and the adult minimum wage: GB



Note: We show low-paying occupations which contain 100,000 or more workers. The largest of these are shown with coloured lines and labelled, the grey lines show the remainder.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Of course, encouraging evidence from the 2016-2019 period doesn't mean this trend will continue. It may be easier for (or there may be more pressure on) employers to maintain pay differentials in a buoyant labour market. On the other hand, the preservation of wage differentials may be down to the fact that minimum wage policy is now set on a multi-year basis, meaning employers have lots of warning about future increases, giving them more time to make adjustments to pay and workforce structures. The wage floor has also, since 2016, risen in a fairly consistent manner year on year, perhaps also helping employers adjust.

This idea – the importance to employers of steady upratings and advance notice – is consistent with the fact that coverage rose considerably in 2016 (when employers were given relatively little notice of what was a substantial uprating).[56] Since then, employers have had much earlier forward guidance. Moreover, the 2015 announcement was made with an indicative cash figure for 2020 of £9 (despite the fact that formally speaking the target was connected to median pay, not a cash target).[57] With wage growth since 2015 coming in lower than expected at the time, the actual NLW this year (£8.72) is also lower than many employers would have expected. A lower-than-expected NLW may have

56 The introduction of the NLW meant that the wage floor for adults rose 11 per cent, much higher than previous upratings. This was announced in the July 2015 Summer Budget, and introduced the following April.
57 HM Treasury, Chancellor George Osborne's Summer Budget 2015 speech, July 2015.

meant that employers that had made preparations for the higher figure found they had room to spare for pay rises for workers above the wage floor.

Policy makers should look beyond the wage floor to other ways of supporting low-paid workers

Raising the wage floor should continue to be a priority. But there is plenty more that policy makers can and should do to support low-paid workers in the coming years. First, and most obviously, more attention should be paid to minimum wage enforcement. It is important to remember that in 2019, an estimated 21.5 per cent of workers covered by the minimum wage were paid below the legal minimum, amounting to 420,000 workers receiving less pay than they are legally entitled to.[58] Even as we recommend a cautious uprating for the rate itself this year, it is more important than ever to ensure that employees at the wage floor receive the pay they are owed, as a tough economic climate increases the incentive for firms to flout the rules.[59] As we have previously argued, tougher sanctions should be introduced for non-compliance in order to effectively deter such behaviours and protect low-paid workers.[60]

But beyond the minimum wage, there are further areas for action. Our priorities would be as follows:[61]

- *More control over working hours and when workers are paid*. On hours, we propose a similar set of recommendations to the LPC.[62] Workers should have a right to a contract that reflects the actual hours they work (not just a right to request one, as at present); a right to two weeks' advance notice of work schedules; and to compensation when shifts are cancelled. On pay, workers in large companies should be able to control how often they are paid.

- *The same rights as higher earners*. Sick pay should be extended to lower earners. Currently, workers earning less than £120 per week are not eligible. This is problematic in normal times, but especially so in a pandemic where illness is more common, and where there is a social cost to workers with the virus continuing work. Low-paid workers are less likely to be protected by unfair dismissal rules, which since 2012 have only applied after two years in post. This time period should be reduced to one year.

58 Excludes flagged legitimate underpayment. See: Low Pay Commission, Non-compliance and enforcement of the National Minimum Wage 2020, June 2020.
59 R Moss, Matthew Taylor: Covid-19 increases temptation of non-compliance, Personnel Today, July 2020.
60 L Judge & A Stansbury, Under the wage floor: Exploring firms' incentives to comply with the minimum wage, Resolution Foundation, January 2020.
61 We set out these in more detail, along with supporting evidence, in: T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect. Resolution Foundation, June 2020.
62 Low Pay Commission, Low Pay Commission Response to the Government on 'one-sides flexibility', December 2018

- *Institutional innovation to drive up standards*. The last decade has shown that high employment and a rising minimum wage are not enough to deliver good work in all parts of the labour market. With the UK's individualised system of labour market rights, and with low union membership, we need new institutions to drive up standards. Along with strengthening unions by giving them the right to enter workplaces, policy makers should consider re-introducing wage boards in the industries in clear need of improved standards, starting with social care.
- *Enforcement of health and safety*. Given the risks many low-paid workers are taking – continuing to travel to workplaces, while higher-paid workers are more likely to be able to work safely at home – local authorities should be resourced to carry out health and safety spot checks.

This is a package of proposals which could feasibly be introduced, and which, in addition to improved pay from a rising minimum wage, would improve the working lives of the low paid. This year's minimum wage increase is likely to be cautious, both because overall pay growth is likely to have slowed, and because of the risk of job losses in the high-minimum-wage-coverage sectors most affected by the pandemic. But that is all the more reason to retain the long-term ambition to end low pay, and to aim to improve work in a broader sense for those in low pay.

Annex 1: Low pay in depth

This section provides more detailed statistics on who is low paid under our three definitions (see Box 1 in Section 2).

TABLE 1: **Low pay in April 2019**

Proportion of all employees below selected low pay thresholds: GB, 2019

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% in group below	% of all below threshold	Number (000s)	% in group below	% of all below thresh	Number (000s)	% in group below threshold	% of all below thresho
All employees	4,235	15%	100%	1,980	7%	100%	5,795	21%	100%
Sex									
Women	2,570	19%	61%	1,220	9%	62%	3,515	25%	61%
Men	1,670	12%	39%	755	6%	38%	2,275	17%	39%
Age group									
16-20	915	69%	22%	215	16%	11%	1,025	77%	18%
21-24	545	28%	13%	160	8%	8%	740	38%	13%
25-30	485	13%	11%	280	7%	14%	725	19%	13%
31-35	345	11%	8%	200	6%	10%	505	15%	9%
36-40	330	10%	8%	195	6%	10%	470	15%	8%
41-45	295	10%	7%	180	6%	9%	425	14%	7%
46-50	340	13%	8%	195	6%	10%	500	15%	9%
51-55	345	15%	8%	195	6%	10%	495	16%	9%
56-60	315	20%	7%	180	7%	9%	455	18%	8%
61-65	210	15%	5%	120	9%	6%	295	22%	5%
66+	115	9%	3%	70	12%	4%	160	28%	3%
Region									
East Midlands	380	19%	9%	185	10%	9%	475	24%	8%
Yorkshire & the Humber	435	19%	10%	210	9%	11%	535	23%	9%
West Midlands	430	19%	10%	200	9%	10%	530	23%	9%
North East	200	19%	5%	105	10%	5%	250	24%	4%
North West	550	18%	13%	265	9%	13%	680	22%	12%
Wales	225	19%	5%	105	9%	5%	285	24%	5%
South West	415	17%	10%	175	7%	9%	530	22%	9%
East	410	16%	10%	180	7%	9%	525	20%	9%
South East	520	13%	12%	225	6%	11%	675	17%	12%
Scotland	320	13%	8%	155	6%	8%	435	18%	8%
London	355	8%	8%	175	4%	9%	870	20%	15%
City region									
Nottingham	80	19%	2%	35	9%	2%	105	24%	2%
Sheffield	120	19%	3%	60	10%	3%	150	23%	3%
Tees Valley	55	21%	1%	25	10%	1%	70	27%	1%
Liverpool	105	18%	2%	50	9%	3%	130	22%	2%
Newcastle	150	19%	4%	80	10%	4%	180	23%	3%
Birmingham	190	17%	4%	90	8%	5%	240	22%	4%
Leeds	200	18%	5%	90	8%	5%	245	22%	4%
Cardiff	100	17%	2%	45	8%	2%	130	21%	2%
Manchester	200	17%	5%	100	8%	5%	245	21%	4%
Bristol	80	13%	2%	30	5%	2%	105	17%	2%
Glasgow	45	16%	1%	20	7%	1%	65	22%	1%
London	355	8%	8%	175	4%	9%	870	20%	15%
Occupation									
Elementary	1,420	46%	34%	685	22%	35%	1,780	57%	31%
Sales & customer service	875	39%	21%	365	16%	18%	1,180	53%	20%
Personal services	675	26%	16%	315	12%	16%	990	38%	17%
Process & machinery ops.	290	19%	7%	150	10%	8%	395	26%	7%
Skilled trades	310	15%	7%	155	8%	8%	405	20%	7%
Admin & secretarial	350	12%	8%	165	5%	8%	540	18%	9%
Managers & senior officials	105	4%	2%	60	2%	3%	160	6%	3%
Associate prof. & technical	150	4%	4%	55	1%	3%	245	6%	4%
Professional	60	1%	1%	30	1%	2%	100	2%	2%
Hours worked									
Part time	2,445	31%	58%	1,175	15%	59%	3,145	40%	54%
Full time	1,795	9%	42%	805	4%	41%	2,645	14%	46%
Hours worked and sex									
Part-time women	1,710	29%	40%	830	14%	42%	2,235	38%	39%
Part-time men	735	36%	17%	345	17%	17%	915	45%	16%
Full-time women	860	11%	20%	390	5%	20%	1,285	16%	22%
Full-time men	935	8%	22%	415	4%	21%	1,365	12%	24%

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% in group below	% of all below threshold	Number (000s)	% in group below	% of all below thresh	Number (000s)	% in group below threshold	% of all below thresho
Contract type									
Temporary/casual	565	24%	13%	255	11%	13%	730	31%	13%
Permanent	3,670	15%	87%	1,725	7%	87%	5,060	20%	87%
Firm structure									
Sole proprietors	170	45%	4%	110	29%	6%	195	52%	3%
Partnerships	160	30%	4%	85	16%	4%	200	37%	3%
Private companies	3,420	19%	81%	1,580	9%	80%	4,585	26%	79%
Non-profit bodies and mutuals	260	11%	6%	120	5%	6%	405	16%	7%
Local authorities	135	5%	3%	55	2%	3%	240	10%	4%
Central government	85	2%	2%	35	1%	2%	165	5%	3%
Pub. corps & nationalised ind's	0	1%	0%	:	:	:	5	2%	0%
Broad sector									
Private sector	3,750	20%	89%	1,770	10%	89%	5,220	27%	90%
Third sector	260	11%	6%	120	5%	6%	405	16%	7%
Public sector	220	4%	5%	90	1%	5%	410	7%	7%
Firm size									
XS (0-9 employees)	620	28%	15%	400	18%	20%	745	34%	13%
S (10-49 employees)	800	22%	19%	415	11%	21%	1,005	27%	17%
M (50-249 employees)	600	17%	14%	280	8%	14%	805	22%	14%
L (250-4,999 employees)	995	15%	23%	445	7%	22%	1,380	20%	24%
XL (5,000+ employees)	1,000	20%	24%	350	7%	18%	1,445	29%	25%
Industry									
Hotels & restaurants	840	52%	20%	380	23%	19%	1,010	62%	17%
Wholesale & retail	1,100	28%	26%	465	12%	23%	1,515	38%	26%
Agriculture	45	30%	1%	20	15%	1%	55	36%	1%
Arts & recreation	155	26%	4%	65	11%	3%	205	34%	4%
Admin & support services	455	24%	11%	260	14%	13%	600	33%	10%
Other service activities	120	25%	3%	75	16%	4%	150	30%	3%
Health & social work	515	13%	12%	245	6%	12%	765	19%	13%
Manufacturing	285	11%	7%	125	5%	6%	380	15%	7%
Construction	115	11%	3%	60	6%	3%	140	13%	2%
Water supply & waste	10	6%	0%	5	4%	0%	20	11%	0%
Real estate	30	8%	1%	15	3%	1%	50	13%	1%
Education	280	7%	7%	110	3%	6%	460	12%	8%
Transport & storage	85	8%	2%	40	4%	2%	125	11%	2%
Prof. & technical	115	6%	3%	65	3%	3%	165	9%	3%
Info. & comms.	50	5%	1%	25	2%	1%	70	6%	1%
Public admin	25	2%	1%	10	1%	1%	40	3%	1%
Finance	20	2%	0%	5	1%	0%	35	3%	1%

SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Annex 2

Measuring low pay

Combining different datasets to track low pay over time

As detailed in the body of this report, where we present time series stretching back before 1997, the figures are drawn from multiple sources. We use hourly pay data across full-time and part-time employees from three sources: the Family Expenditure Survey (FES) covering 1968 to 1981; the New Earnings Survey Panel Data (NESPD) between 1975 and 2013; and the Annual Survey of Hours and Earnings (ASHE) for the period between 1997 and 2019.

As the largest of the three surveys, ASHE provides the greatest level of accuracy. The FES data in particular should be treated with caution, with its derivation depending on the self-recording of 'normal weekly pay' and 'normal weekly hours worked'. In order to provide a consistent basis for our time series, we have adjusted both the FES and NESPD data to bring them into line with the ASHE figures. To do this, we consider the size of the gap between the various sources in the years in which they overlap and inflate or deflate over the remaining period accordingly.

Measuring low pay in ASHE

The data cleaning processes and assumptions we apply to ASHE microdata are similar to those used by the ONS. We use an hourly pay variable that excludes overtime and shift premia and we exclude jobs in which pay has been affected by absence from our analysis. In addition, we exclude jobs with missing or zero hourly pay data when calculating the prevalence of low pay, but then use a specific low-pay weight included in ASHE in order to report the number of low-paid people taking account of that missing wage information. While ASHE statistics published by the ONS cover the UK as a whole, the microdata available to researchers is for Great Britain only, therefore the majority of the analysis in this report excludes Northern Ireland.

To calculate the number and proportion of employees 'on' the National Minimum Wage (and National Living Wage) we capture employees earning up to 1 per cent above their age-specific NMW/NLW rate (i.e. this measure includes those earning below the NMW due to non-compliance). The 1 per cent buffer is applied due to uncertainty in the hourly wage data and because many employees are paid a few pence above the rate itself in order that their employers not be considered 'minimum wage businesses'. However, in practice, their wages are strongly determined by the rate of the NMW, not least because the NMW has grown by at least 1 per cent each year since 2001, meaning that those up to 1 per cent above it are likely guaranteed a pay increase. Apprentices paid more than their legal minimum (£3.90 in April 2019) but less than the usual minimum for their age group are nonetheless counted as 'on' the NMW/NLW.

Defining city regions

For our analysis comparing different city regions in the UK, the city regions and the local authorities they encompass are set out in Table 8 of: S Clarke, City living: Devolution and the living standards challenge, Resolution Foundation, October 2016.

Datasets

The report uses a range of statistics and datasets produced by the Office for National Statistics.

We make use of the following microdata from the ONS:

- Office for National Statistics, Social Survey Division. (2020). Quarterly Labour Force Survey. 2nd Edition. UK Data Service. SN: 8671, http://doi.org/10.5255/UKDA-SN-8671-2
- Office for National Statistics. (2020). Annual Survey of Hours and Earnings, 1997-2019: Secure Access. 16th Edition. UK Data Service. SN: 6689, http://doi.org/10.5255/UKDA-SN-6689-15
- University of Essex, Institute for Social and Economic Research. (2020). Understanding Society: COVID-19 Study, 2020. 3rd Edition. UK Data Service. SN: 8644, http://doi.org/10.5255/UKDA-SN-8644-3

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We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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