The Resolution Foundation Labour Market Outlook

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This year’s minimum wage uprating is large: roughly 1.6 million workers stand to benefit directly on 1 April when the adult rate rises to £11.44 – giving a cash increase of 9.8 per cent and a real-terms increase of 7.8 per cent. These are the third largest annual increases in the minimum wage’s history. 1 April is also a landmark day, as the minimum wage turns 25 years old. Initially introduced at a conservative £3.60 per hour – a low-to-middling level compared to the minimum wage in other countries – the UK’s minimum wage is now one of the highest in the world.

Over successive governments, this policy ambition has transformed the shape of pay growth (since 1998, real-terms growth in hourly pay has been five-times faster at the 10th percentile than at the 90th) and has boosted pay in the UK’s lowest-paid jobs (median hourly pay among bar staff and cleaners in 2023 was 66 and 52 per cent higher than in 1998 in real terms, respectively, compared to 19 per cent real-terms growth in median hourly pay across the economy as a whole). In total, a full-time minimum wage earner today earns £6,000 more per year compared to a world in which the minimum wage had only risen in line with typical wages.

There is now a question about what comes next, as neither main political party has a clear policy for the minimum wage after 2025. Whoever wins the next election, it is important that long-neglected areas of employment policy in the UK (such as the generosity of Statutory Sick Pay) start to receive more attention.

Spotlight | Happy 25th birthday to the minimum wage

On 1 April the National Living Wage (the adult-rate minimum wage, which from this year includes everyone aged 21 and older) will be uprated to £11.44. This will be a cash uprating of 9.8 per cent – the third highest annual percentage cash increase in the history of the minimum wage. Roughly 1.6 million workers paid the minimum wage will benefit directly, and other workers above but close to the minimum wage will also see their pay rise. Thanks to falling inflation (the OBR expects CPI inflation to reach 2.0 per cent in Q2 2024), this will also be a very healthy real-terms increase of 7.8 per cent – also the third highest in the minimum wage’s history, and about four-times the current rate of real-terms average weekly pay growth. Figure 1 shows the history of minimum wage rises.
FIGURE 1: This year’s minimum wage uprating will be the third highest annual change in its history
Cash and real-terms annual increase in the adult-rate National Minimum Wage: UK

But as well as bringing a hefty pay rise for low earners, 1 April is also a landmark day for the minimum wage – the 25th anniversary of its introduction back in 1999. As such, in this edition of the Labour Market Outlook we reflect on what the minimum wage has achieved over the past quarter century.

The minimum wage has grown up – into a much more radical policy

The UK’s minimum wage was introduced in April 1999 at a rate of £3.60, equivalent to 47 per cent of median hourly pay among adult workers (aged 21 or over). This ‘bite’ was low-to-middling compared to the minimum wages in the 19 OECD countries which already had minimums at that point (see Figure 2, which plots the ‘bite’ of the minimum wage across OECD countries relative to full-time workers’ median pay).

What started life as a cautious policy has grown into something much more radical. The turning point was the minimum wage’s 17th birthday in 2016, which saw the creation of the ‘National Living Wage’ (NLW) (a higher rate for adults aged 25 and over, now extended to adults aged 21 and over), and the introduction of a target to substantially raise its bite over the coming years. The Low Pay Commission (LPC) now expects the 2024 minimum wage to reach a bite of two-thirds of typical hourly pay, reaching the updated target set back in 2020. This will see the minimum wage become one of the highest in the world relative to typical wages; behind New Zealand still, but level with France and Korea’s 2022 minimum wages (2022 is currently the most recent year for which the OECD has published data on minimum wages).
FIGURE 2: The UK’s minimum wage is now one of the highest in the world
Adult minimum wage compared to median hourly pay among full-time workers: OECD countries with minimum wages

NOTES: The OECD measures minimum wage ‘bite’ relative to median hourly pay among full-time employees rather than all workers. Dataset extends only to 2022. Figure for UK 2024 estimated by adjusting the UK’s target bite of two-thirds (which applies to median hourly pay among all workers), to the 2023 ratio of median hourly pay among full-time employees compared to the overall median.


The creation of the NLW and the use of an uprating target wasn’t universally popular: many economists preferred the previous institutional set up, where the LPC wasn’t set a target by the government. But it has made a big difference. From 1999 to 2015, the adult-rate minimum wage rose by 1.7 per cent per year in real terms, but it has risen by a much faster 3.2 per cent per year in real terms from 2015 to 2024.\(^1\) If the bite of the minimum wage had continued rising at its 1999-2015 pace (at 0.4 percentage points per year, which is a reasonable counterfactual of what would have happened in the absence of a bite target from 2015), the 2024 adult-rate minimum wage would be £10.05 rather than £11.44. This 12 per cent difference is significant – it amounts to £2,500 additional gross earnings per year for a full-time (35 hours per week) worker on the minimum wage.

The minimum wage has had a big impact on low earners

The impact of the minimum wage is clear to see in the changing shape of wage growth over the past several decades. From 1980 to 1998 – when the UK had no minimum wage – hourly pay growth was twice as fast at the top of the distribution (3.1 per cent per year at the 90th percentile of the hourly pay distribution, in real terms) than at the bottom (1.4 per cent per year at the 10th percentile). In the minimum wage era the opposite has happened: growth in real hourly pay has been five times faster at the bottom (1.6 per cent per year at the 10th percentile, in real-terms) than at the top (0.3 per cent per year at the 90th percentile) – see Figure 3.

\(^1\) This calculation uses the OBR’s forecast of CPI inflation of 2 per cent from Q2 2023 to Q2 2024.
Faster pay growth at the bottom is what has led to rapid reduction in the rate of ‘low pay’ in the UK, as measured by the proportion of workers earning less than two-thirds of the median in hourly terms. In 2023 this stood at 9 per cent, the lowest on record (using data which stretches back to the 1970s).

Perhaps most concretely, the impact of the minimum wage is seen in the substantial improvement in the pay of the UK’s lowest-paid jobs. Between 1998 and 2023, overall median hourly pay grew by 19 per cent (all of this growth happened before the financial crisis). Over the same period, and again in real terms, median hourly pay rose by 66 per cent for bar staff, 52 per cent for cleaners, and 43 per cent for sales assistants (the minimum wage itself has risen by 72 per cent since its introduction). Unlike typical earners, pay in those occupations is now substantially higher (in real terms) than it was before the financial crisis.
FIGURE 4: Hourly pay has grown fastest in the lowest-paid jobs
Change in real median hourly pay since 1998: UK

NOTES: Adjusted using CPI.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings, and New Earnings Survey.

As a final statement of impact, a full-time worker (working 35 hours per week) on the minimum wage today earns £6,000 more per year compared to a world in which the minimum wage had simply risen in line with typical wages.

The minimum wage has achieved more than was thought possible

Importantly, this progress on pay has been achieved without causing significant job losses among the low paid. There is, rightly, debate about this between economists, but the current consensus is that negative employment effects stemming from the minimum wage are, if not zero, then small. Figure 5 gives an illustrative example of this non-effect: there is little relationship between hourly pay level and the change in employment over the past 25 years across groups when broken down by age, skill and qualification level.

Besides hitting employment, economists also used to think that one consequence of a higher minimum wage would be an ever-rising number of jobs becoming minimum wage jobs, potentially with negative implications for workers’ desire to progress or take on additional responsibilities at work. Against expectations, that hasn’t happened. In 2023, 5 per cent of employees were paid at the minimum wage. This is higher than when the minimum wage was first introduced (in 1999, 3 per cent of employees were paid the minimum wage or less), but no higher than a decade ago. This suggests employers have been better able to preserve wage differentials between occupations in the recent fast-uprating period than was expected.
It’s easy to be blasé about the lack of negative effects, not least because non-effects are by their nature not very exciting. But it’s worth underlining: over the course of 25 years in the UK, we have raised the relative cost (compared to middle-earners) of low-paid labour by 41 per cent (as measured by the increase in the ‘bite’ of the minimum wage) without materially affecting the job prospects of low earners. This would have seemed impossible to most economists in 1999 (even though Card and Krueger had started to chip away at the idea that minimum wages must lead to job losses in the early 1990s). Of course, we are now familiar with the idea that employers’ significant bargaining power is what makes this possible (i.e. by keeping wages below what employers are willing to pay). But we are still learning about how much power employers have, and therefore also largely guessing about how high minimum wages might be able to go in the future.

We have also learnt what the minimum wage can’t achieve

The minimum wage has a claim to have been the most successful UK policy of recent times. But this success has arguably meant we have paid less attention to other aspects of employment policy; certainly, in many areas, the UK lags well behind other rich countries. In terms of statutory minimums, compared to workers in other OECD countries, UK workers are less well protected financially if they become sick or lose their job, get less holiday, and women face a relatively large financial penalty when on maternity leave.
We also put comparably little public resource into enforcing our labour market rules – there are fewer ‘labour market inspectors’ than in other countries (in the UK this will include, for example, the number of staff in HMRC tasked with investigating minimum wage underpayment); in general, a lot of the burden of enforcing employment rights is placed on individual workers. And enforcement matters when policy makers are raising the floor: the number of workers being paid less than the minimum wage doesn’t appear to be rising, but at 365,000 workers (in 2023), it is unacceptably high.

UK policy makers also need reminding that the minimum wage is not the best way of tackling poverty. In some of the lowest-income households there is no one in work, and if there is they may not be in a minimum wage job (they might, for example, have hourly pay above the minimum, but work part time). Our approach to the social security system, and in particular how we uprate benefits, is where the biggest difference to poverty is made. Unfortunately, benefits policy has pushed against minimum wage rises over the past decade to the extent that a dual-minimum-wage-earning couple with three children would have been worse off in 2023 than their equivalent in 2013, despite their gross pay having risen by 27 per cent in real terms.

**Political parties’ election promises may take the minimum wage into unchartered territory**

The minimum wage now faces an uncertain future. Neither main party has a clear policy for what they would do after 2024. Labour say the minimum wage should ‘cover the cost of living’, but haven’t spelled out what this means in practice, though it surely means taking the minimum wage higher, given it lies below the real Living Wage (which is calculated with reference the cost of a basic basket of goods and services). The Conservative party hasn’t said anything at all yet, but having made a higher minimum wage part of their offer to working families in recent years, it seems unlikely that they will not offer something more. So it is possible we’ll go into another election (as we did in 2019) with both parties making ambitious promises to raise the minimum wage.

That is of course welcome given the difference this will make to low earners. But as the UK is now firmly into ‘policy experiment’ territory, it is important that any further rises are handled carefully – with the LPC’s expertise at the heart of policy making. And, when the election dust settles, we will also need to start having a more nuanced discussion about the minimum wage and its effects. So far the minimum wage has been a free lunch for policy makers, offering wage gains to voters with no real costs. If the minimum wage keeps rising, eventually that won’t be the case, and there will be difficult decisions about what kind of trade-offs we are happy to live with.
Lifting the lid | The picture across different groups and areas

Here we explore a few of the most interesting labour market developments for different groups of workers and different parts of the country.

**FIGURE 1: Minimum wage coverage varies widely across the UK**

Coverage of the NMW/NLW for employees aged 16+, by region and nation (left panel) and London borough (right panel): UK, 2023

New data from the Low Pay Commission’s annual report shows the variation in minimum wage coverage across the country in 2023. In Northern Ireland, the North East of England and the East Midlands, more than 7 per cent of workers were paid at the wage floor (the left panel of Figure 1) – whereas in London, that was the case for less than half that share (3.3 per cent). But there is huge variation within London, as shown in the right panel of Figure 1. In the inner London boroughs of Hammersmith & Fulham, Southwark, Camden, Tower Hamlets and Westminster, fewer than one-in-40 jobs were paid at the wage floor, with just 0.9 per cent of workers in Westminster being paid the minimum wage. But that figure rose to around one-in-ten in Brent (10.1 per cent) and Bexley (9.9 per cent). This variation is unsurprising given how different local labour markets can be, with some areas high in the type of jobs likely to be covered by the minimum wage and others dominated by higher-earning occupations.

NOTES: Jobs classified by location of workplace. For disclosure purposes, the Hammersmith and Fulham coverage estimate has been rounded to <2,500 workers and coverage percentage estimated as <2500/total number of employees. SOURCE: LPC, 2023 local authority and region and nation coverage data.
FIGURE 2: Almost a quarter of minimum wage workers are underpaid

Estimated rate of underpayment for covered workers (those paid at or below the NMW/NLW-plus-5p), and ‘bite’ of the NMW/NLW (minimum wage rate as share of median wage): UK

NOTES: Different methods are used to calculate underpayment rates 1999-2003, 2004-05, 2006-10 and 2011 onwards. Data for 2016 onwards are for different points in the minimum wage year than all other years, so cannot be directly compared to 2011-15 data. Bite is for April of the relevant year. We exclude 2020 and 2021 because pay data was affected by the Job Retention Scheme, where many furloughed workers were paid 80 per cent of their previous earnings. Latest data point is 2023 for the underpayment series and 2024 for the (projected) bite.


The minimum wage has undoubtedly lifted pay for the vast majority of workers covered by it – but, alongside those whose age or apprentice status means they are ineligible for the headline rate, unlawful underpayment of the minimum wage will leave some languishing in low pay even after the NLW reaches two-thirds of the median. Somewhat shockingly, the latest data set out in Figure 2 shows that in 2023 almost a quarter (23 per cent) of minimum wage workers were in fact being paid less than the law requires. There is, of course, uncertainty around this measure (we cannot rely on employers to reliably report their own unlawful behaviour to an ONS survey), but a range of evidence shows that some unscrupulous employers are breaking the law on this and other employment rights. One optimistic takeaway from Figure 2 is that the rate of underpayment at least does not seem to be increasing with the bite of the minimum wage, as we might expect to happen as rising wage costs give firms more of an incentive to cut corners. But far too many workers are still being short-changed. The recent naming round, publicising the names of employers that have been caught underpaying the minimum wage, is a helpful start – but as we have set out in previous work, far more must be done to effectively enforce workers’ rights across the board.

2 A version of Figure 2 first appeared in: L Judge & A Stansbury, Under the wage floor: Exploring firms’ incentives to comply with the minimum wage, Resolution Foundation, January 2020.
This Outlook has focused on the wages of the very lowest earners. But overall wage growth has also been of interest, with high nominal wage growth since the second half of 2022 – even at times outpacing inflation – driving concerns among some policy makers of potential second-round effects. Data from XpertHR (plotted in Figure 3), however, shows that pay settlements are starting to fall. In February 2024, the typical pay settlement taking effect in the past three months fell to 4.8 per cent, its lowest since October 2022, and XpertHR expect that the median pay award over 2024 as a whole will be just 4 per cent, compared to 6 per cent in 2023. This should reassure policy makers that wage pressure is beginning to ease – and given that inflation is also coming down, falling wage growth in cash terms may not have to come at the expense of real-terms pay rises for workers.
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