Resolution Foundation
BRIEFING

Minimum wage, maximum pressure

The impact of 2025's minimum wage and employer NICs increases

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Summary

The coming week will be an expensive one for the employers of low-paid workers. On April 1st, the adult minimum wage will rise by 6.7 per cent – the seventh-largest rise in 26 years. Rates for younger workers will rise even faster – by 18 per cent for 16-17-year-olds and 16.3 per cent for 18-20-year-olds, as the Government pursues its policy of convergence with adult rates.

Five days later, employer National Insurance Contributions (NICs) will rise substantially – and fastest on low-paid jobs. The big cut in the earnings threshold above which employers pay NICs – from £9,100 to £5,000 on annual earnings – hits lower-paid workers hardest, outweighing the top-heavy impact of the increase in the rate – from 13.8 to 15 per cent. For a part-time minimum-wage worker on annual earnings of £10,000, for example, employers' NICs will rise from £124 to £750, giving an increase in labour costs of 6.2 per cent. For higher earners, the increase in NICs is bigger in absolute terms, but smaller in proportion to earnings – just 2.0 per cent.

The combined impact of NICs and the minimum wage is significant: the overall increase in labour costs for employing a part-time adult minimum wage earner in April will be 14.2 per cent, the largest since the minimum wage began, in 1999.

Most workers will end up absorbing much of the higher NICs in the form of lower pay. But pay cannot fall for workers at or near the minimum wage, so labour cost increases and job losses will be concentrated at the bottom of the labour market – worth perhaps as much as 0.7 per cent of hours worked in the bottom decile of the weekly pay distribution, although these estimates are very uncertain. As in previous episodes, a small part of the cost could be absorbed by greater efficiency and capital investment in firms, a reallocation of workers toward more productive employers, and/or a reduction in aspects of job quality. The increase in Employment Allowance, whereby employers are exempted their first £10,500 in NICs liabilities, up from £5,000, will help very small employers, but only 8 per cent of low-paid workers (with bottom-fifth hourly wages) work for employers where the changes to the Employment Allowance fully offset the increase in employer NICs, so its overall mitigating effect will be limited.

Overall, we judge that the combined of NICs and the minimum wage increase will reduce total employment by 85,000. This effect is somewhat larger than the impact of the NICs change alone assessed by the OBR in Autumn 2024, but our numbers are not directly comparable – the OBR did not provide an estimate of the minimum wage impact, and for low earners our assumptions about employment responses are different to the OBR's

(we assume a lower demand elasticity for this group, in keeping with the minimum wage literature).

Looking ahead to the future of the minimum wage, we make four recommendations to the Government and the Low Pay Commission (LPC). First, tax policy should go with the grain of minimum wage policy, not against it. The LPC should make its recommendations with knowledge of the relevant tax policy changes; this likely means its recommendations should follow rather than precede the autumn budget. Second, the bite of the minimum wage should continue to rise, but slowly and cautiously – by 1 percentage point a year, about half the pace of increase seen from 2016 to 2024.The Government should also plan to commission a new review of minimum wage effects in this parliament to help it judge the balance of costs and benefits from further increases. Third, the Government should allow for flexibility in the implementation of this target. This means, for example, that the LPC should adjust to any future data revisions about median wages gradually, rather than suddenly, as was the case this year. It also means maintaining the youth rates (rather than abolishing them as the Government intends) so that appropriate caution can be exercised when raising the minimum wage for young workers.

April's rising minimum wage combined with bottom-heavy employer NICs increases creates employment risks for low earners

The minimum wage is rising by more than expected this year

The UK has become used to large minimum wage increases. But April's 6.7 per cent increase in the adult minimum wage (the seventh-largest in its 26-year history) still came as something of a surprise. That's because despite ambitious language during the election campaign, when in power the Government's plan for the adult minimum wage from April 2025 was cautious: the Low Pay Commission (LPC) was simply asked to hold the adult rate at two-thirds of median hourly pay.[1] That's less ambitious than recent governments have been – the minimum wage has been rising substantially faster than typical wages since 2016.[2]

But despite the instruction to hold steady, the adult minimum wage is set to gain ground on typical wages in 2025: the 6.7 per cent minimum wage increase is greater than expected growth (in the OBR's recent forecast) of 4.6 per cent in average earnings and

1 During the election the Labour Party said it would make the minimum wage a "genuine living wage", the common-sense interpretation of which was that it would be raised to the level of the 'real Living Wage'. The real Living Wage is a voluntary wage rate businesses can sign up to, calculated by the Living Wage Foundation. It is currently £12.60. The Government's remit to the Low Pay Commission also asks it to "take account of expected inflation", but since wages are usually expected to rise faster than prices, this is not a material change. The remit is published at: Department for Business and Trade, National Minimum Wage and National Living Wage: updated Low Pay Commission remit 2024, July 2024.

2 In 2015 the 'bite' of the adult minimum wage (its value relative to median wages) was 52 per cent. The Low Pay Commission estimate the bite will be 66.7 per cent in 2025. Source: Low Pay Commission, Low Pay Commission Report 2024, February 2025.

5.3 per cent in average hourly wages in the year to Q2 2025.[3] In fact, the ground gained on typical wages this year will be in keeping with the rest of the post-2016 period, in which the annual increases in the adult minimum wage have been roughly 2 percentage points higher than the increases in average earnings, on average.

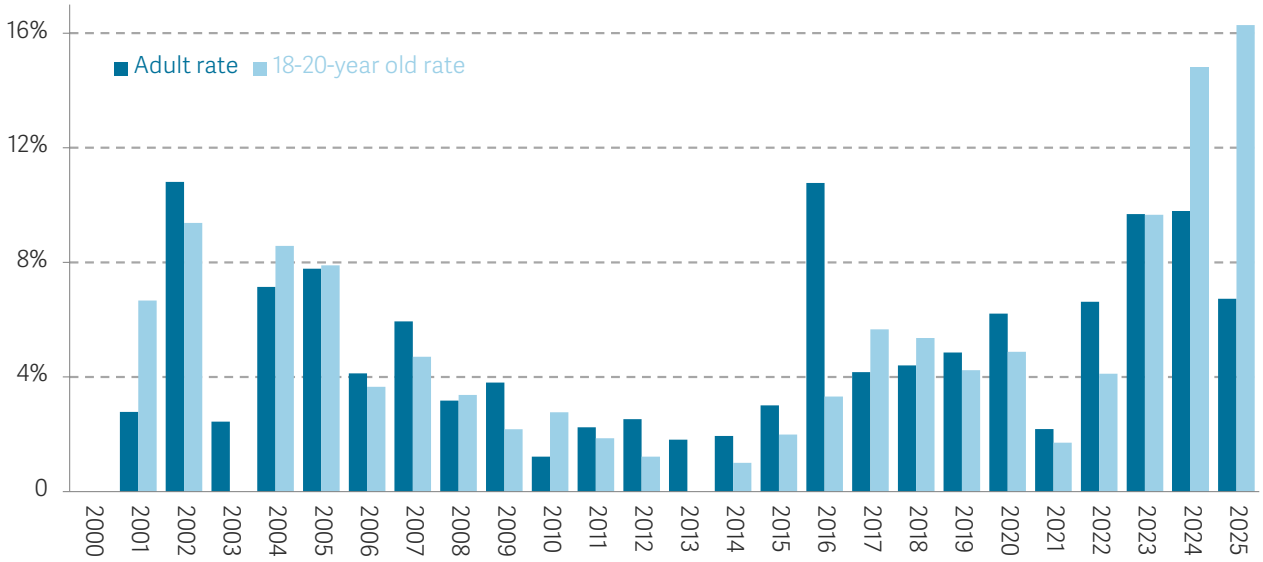
The reason the minimum wage is rising faster is partly down to a data revision. The wording of the LPC's remit means it's the level of median wages that matter for its minimum wage recommendation rather, than its growth rate. This year the ONS revised the methodology underpinning the Annual Survey of Hours and Earnings (ASHE), which the LPC use to estimate median hourly wages. In the words of the LPC, this meant that "the April 2024 median was significantly higher than we had anticipated", and it mechanically raised their recommended minimum wage rate.[4] (In our recommendations at the end of this briefing note we suggest that the minimum wage should not be so directly affected by data revisions – the LPC should be able to phase in the impact of any revisions.)

But while the adult rate uprating was intended to be cautious, the Government's policy on the youth rates is deliberately bold. The youth rates currently apply to workers aged 16 to 20. The rate for 16-17-year-olds is set to rise 18 per cent in April, and the rate for 18-20-year-olds by 16.3 per cent. These large increases are happening because the Government views the youth rates as "discriminatory" and wants to raise the youth rates to the level of the adult rate over time.[5] The 2025 increases in the youth rates are the largest ever, but the increases in the youth rates in 2024 were also large. Figure 1 sets this year's minimum wage increases (for adults and younger workers) against previous increases.

3 OBR, Economic and Fiscal Outlook – March 2025, March 2025.
4 Low Pay Commission, Low Pay Commission Report 2024, February 2025.
5 Department for Business and Trade, National Minimum Wage and National Living Wage: updated Low Pay Commission remit 2024, July 2024.

FIGURE 1: **The increase in the adult minimum wage rate will be the seventh highest, while the increases in the youth rates are by far the highest ever**

Annual change (April to April) in minimum wage rates



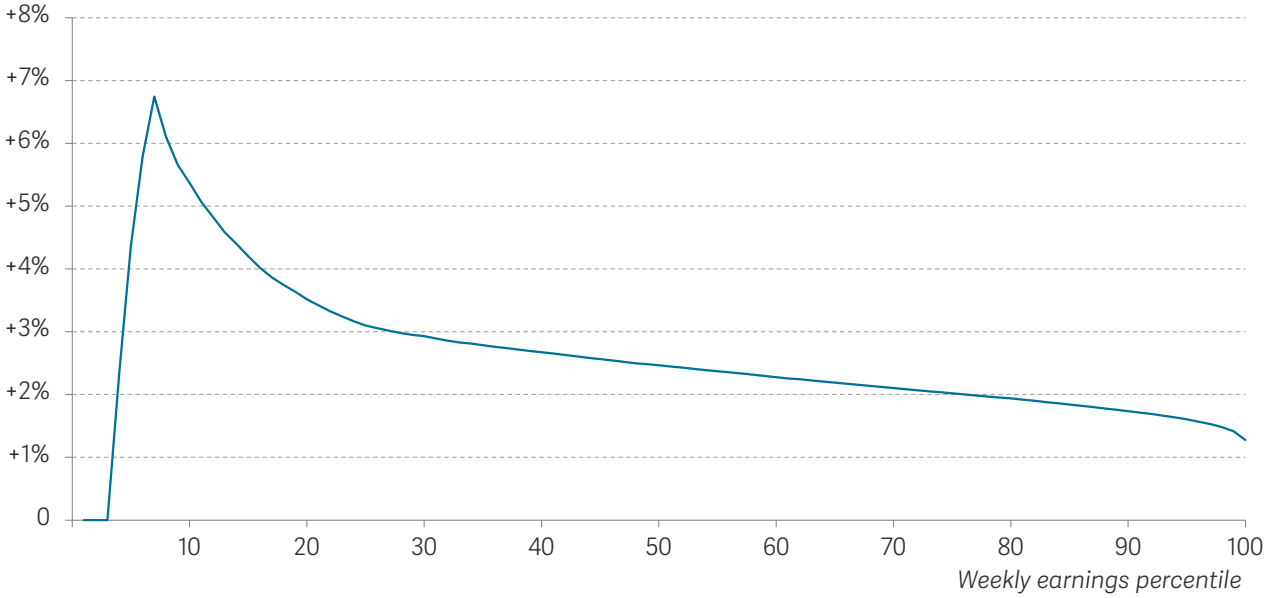
NOTES: Adult rate currently applies to workers aged 21 and above but from 2016 to 2021 it applied to workers aged 25 and above, and from 2022 to 2023 it applied to workers aged 23 and above. The large increase in the adult rate in 2016 was due to the introduction of the 'National Living Wage', a higher adult rate minimum wage for workers aged 25 and above.
SOURCE: Low Pay Commission.

The Government is also increasing employer National Insurance contributions – alongside the minimum wage, substantially raising the cost of employing someone on the minimum wage

The other big change in April is the increase in employer National Insurance Contributions (NICs), announced in the Autumn 2024 Budget. The threshold above which employer NICs are payable is being reduced from £9,100 to £5,000, and the contribution rate is rising from 13.8 per cent to 15 per cent. The reduction in the threshold means the impact of this change on labour costs is greatest for workers with low earnings. The most extreme example applies to workers currently earning near the threshold, who will see the share of their earnings that their employers pay tax on rise substantially. On annual earnings of £10,000, for example, employers' NICs will rise from £124 to £750, giving an increase in labour costs of 6.2 per cent. For earnings of £50,000, the absolute increase in NICs payable is greater (£1,106) but this is smaller in proportion to the worker's earnings, and the change in labour costs is just 2.0 per cent. The impact of the changes across the weekly pay distribution is shown in Figure 2.

FIGURE 2: **The reduction in the threshold means the biggest relative impact of the changes to employer NICs is on low earners**

Change in labour costs due to the April 2025 changes to employer NICs



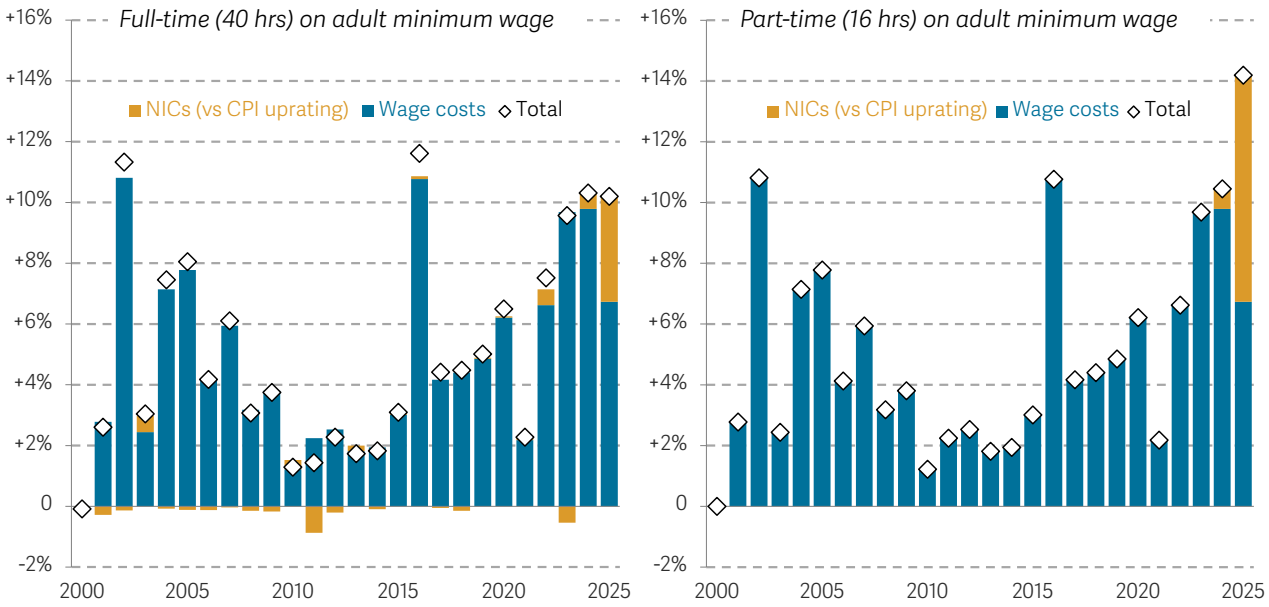
NOTES: Based on April 2024 distribution of weekly earnings, uprated to April 2025 using OBR forecast of average earnings growth in Q2 2025.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings; OBR, Economic and Fiscal Outlook March 2025.

This dynamic means that the impact of the NICs change is significant for all employers of minimum wage workers, but most pronounced for employees on low hours. Someone working full-time (40 hours per week) on the adult minimum wage would earn £25,465 per year on the 2025 minimum wage (£12.21), and the change in employer NICs will raise their employer's annual NICs bill by £811, and their overall labour costs (holding their wages constant) by 2.9 per cent. By contrast, someone working part-time (16 hours per week) on the adult minimum wage, whose annual earnings amount to £12,733, will see their employer pay £659 more in NICs and their labour costs rise by 5.0 per cent.

Indeed, if look at both the minimum wage increase and the large change in NICs, then the overall increase in labour costs for a part-time adult minimum wage earner in April will be 14.2 per cent, the largest in the history of the minimum wage (see Figure 3). The overall increase in labour costs for a full-time minimum wage earner will be 10.2 per cent – still large, but smaller than the increases in 2002, 2016, and 2024. On the other hand, employers do not have to pay NICs on the earnings of workers aged under 21, so the NICs changes do not add to the large increases in the youth minimum wage rates.

FIGURE 3: **2025 will see the largest-ever increase in the labour costs of part-time workers on the adult minimum wage**

Change in labour costs on previous year (April to April) for workers on the adult minimum wage



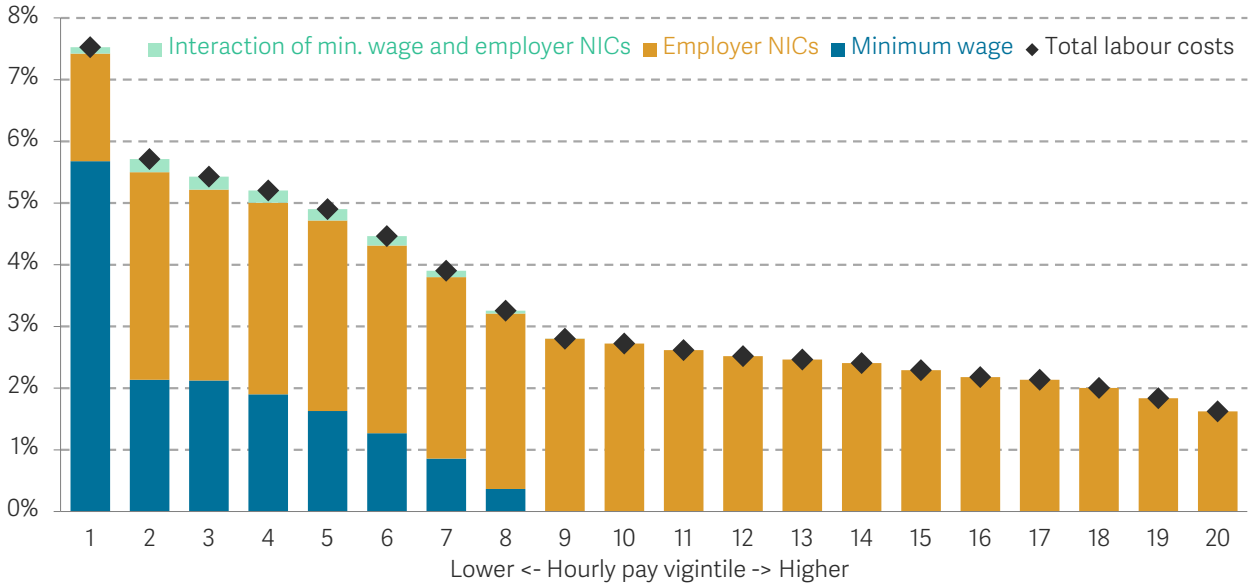
NOTES: Change in NICs costs on previous April are actual employer NICs compared to counterfactual of employer NICs threshold having risen in line with previous September's CPI. NICs and wage costs bars do not sum exactly to total change in labour costs because the interaction term (i.e. NICs being paid on a higher level of wages) is not shown.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Of course, the minimum wage uprating, and the increase in employer NICs are not just issues for minimum wage workers or their employers. Together, these policies will lead to a large increase in labour costs that is concentrated in the bottom half of the pay distribution. Figure 4 plots estimates of the change in labour costs resulting from these two policy changes, over and above the expected increase in average wages of 4.4 per cent this year, and how it varies by a worker's wage.[6] There is an average policy-induced labour cost increase of 3.4 per cent, but there are much larger increases at the bottom of the pay distribution. In the bottom hourly pay decile, the total increase in labour costs from the Government's minimum wage and NICs changes is 6.6 per cent; for the highest earners (the top decile), the impact on labour costs is 1.7 per cent.

6 We assume the minimum wage increase has 'spillover' effects on the wages of some better-paid workers – we assume these taper to zero at the 40th wage percentile. To isolate the impact of policy, average economy-wide wage growth is stripped out. We assume this is 4.4 per cent, based on the OBR's autumn 2024 forecast of average earnings growth in Q2 2025 (we undertook these calculations before the OBR's March 2025 forecast, this has a slightly higher 4.6 per cent for earnings growth in the same period).

FIGURE 4: **The minimum wage and changes to employer NICs will disproportionately raise the labour costs of low earners**

Estimated direct change in employees' labour costs (i.e. without wage adjustments) from minimum wage increase and change in employers' National Insurance Contributions, by hourly pay vigintile: GB



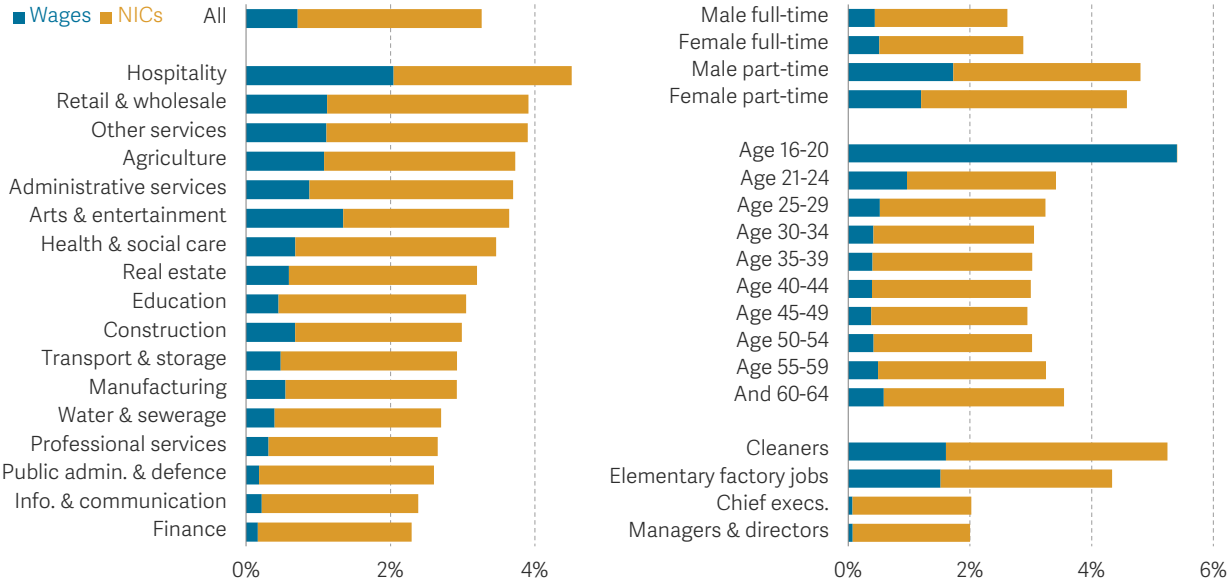
NOTES: Effects are on top of assumed economy-wide wage growth of 4.4 per cent (based on OBR's autumn 2024 forecast). For workers aged 21 or above, the minimum wage increase is assumed to have 'spillover' effects up to the 40th hourly wage percentile. For workers aged 20 or below, the minimum wage increase is assumed to lift workers to the new minimum wage if currently earning below. Minimum wage effect is larger and NICs effect smaller in first vigintile than second because a large number of workers aged under 21 (whose minimum wage change is larger, but who are not eligible for employer NICs) are in this bracket.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

This variation in the impact of the minimum wage increase and employer NICs change by hourly wage and weekly pay means that the impact on workers' labour costs varies substantially across different groups of workers, and across different parts of the labour market. Unsurprisingly, labour costs will rise by more among groups where hourly wages are low (where the minimum wage has a large effect), or where weekly earnings are low (where the employer NICs increase has a large effect). We explore this in Figure 5, which uses data from the ONS's Annual Survey of Hours and Earnings.

Some examples of groups of workers where Government's policy changes will significantly raise labour costs (i.e. over and above economy-wide earnings growth) include: workers in hospitality (a 4.5 per cent increase) and in retail and wholesale (+3.9 per cent), women working part-time (+4.6 per cent), 16-20-year-olds (+5.4 per cent; note this comes entirely from minimum wage changes given their exemption from employer NI), and cleaners (+5.2 per cent).

FIGURE 5: **Labour costs are set to rise significantly in hospitality in retail, for part-time workers, for young workers, and for workers in low-paid occupations**

Estimated direct change in employees' labour costs (i.e. without wage adjustments) from minimum wage increase and change in employers' National Insurance Contributions, by worker categories: GB



NOTES: Effects are on top of assumed economy-wide wage growth of 4.4 per cent (based on OBR's autumn 2024 forecast). For workers aged 21 or above, the minimum wage increase is assumed to have 'spillover' effects up to the 40th hourly wage percentile. For workers aged 20 or below, the minimum wage increase is assumed to lift workers to the new minimum wage if currently earning below. Minimum wage effect is larger and NICs effect smaller in first vigintile than second because a large number of workers aged under 21 (whose minimum wage change is larger, but who are not eligible for employer NICs) are in this bracket.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

The minimum wage will stop low-paying employers lowering wages in response to higher NICs, making employment effects more likely

The rise in labour costs will trigger responses from employers and workers, in prices, wages and employment. The pattern of responses depends on whether employers or workers are more sensitive to wages. When making its assessment of the NICs increases in Autumn 2024, the OBR assumed that employers are relatively sensitive to labour costs when deciding how much labour to hire, whereas workers are relatively fixed when deciding how much labour to offer. As a result, on the OBR's reckoning, workers eventually absorb about three-quarters of the increase in employer NICs through lower real wages, and employment falls about one-eighth as much as wages do. [7]

But it is important to recognise that the low-wage end of the labour market will behave differently. There are two reasons for this. First, workers who are paid the minimum wage cannot accept lower wages, and workers paid slightly more will resist cuts to preserve

7 OBR, Economic and Fiscal Outlook, November 2024.

differentials. So wage adjustment will have to be much smaller. Second, past episodes of minimum wage hikes suggest that employers don't cut jobs much in response. In other words, the available evidence from the bottom of the labour market is quite different to what the OBR assumed about the labour market as a whole.[8] There may be valid reasons for the lower responsiveness of employers at this end of the labour market – for example, employers of low-wage workers may earn higher rents.

To put some numbers on how the labour market will respond over the medium term to the combination of the rise in the minimum wage and the increase in employer NICs, we have constructed a model to estimate how wages, labour costs and employment will adjust. Above the 40th centile of the hourly wage distribution, we follow the OBR and assume that workers absorb three-quarters of the employer NICs hit in the form of lower wages.

The resulting fall in the median wage in turn reduces the reference point for the minimum wage, so the minimum is reduced relative to a counterfactual with no NICs increases. But wages cannot fall below this new floor. For workers above the minimum wage and up to the 40th wage percentile, we assume that wage adjustments are attenuated by the need to preserve pay differentials.

Employers of low-wage workers therefore have to take the hit from higher labour costs in the form of lower profits. Low-wage employers react by cutting employment, but in a more limited way than the OBR assumes, in line with the lessons from the minimum wage literature (specifically, we apply an own-wage elasticity of -0.15 for workers up to the 40th wage percentile, and above the 40th wage percentile a demand elasticity of -0.4 in keeping with the OBR).

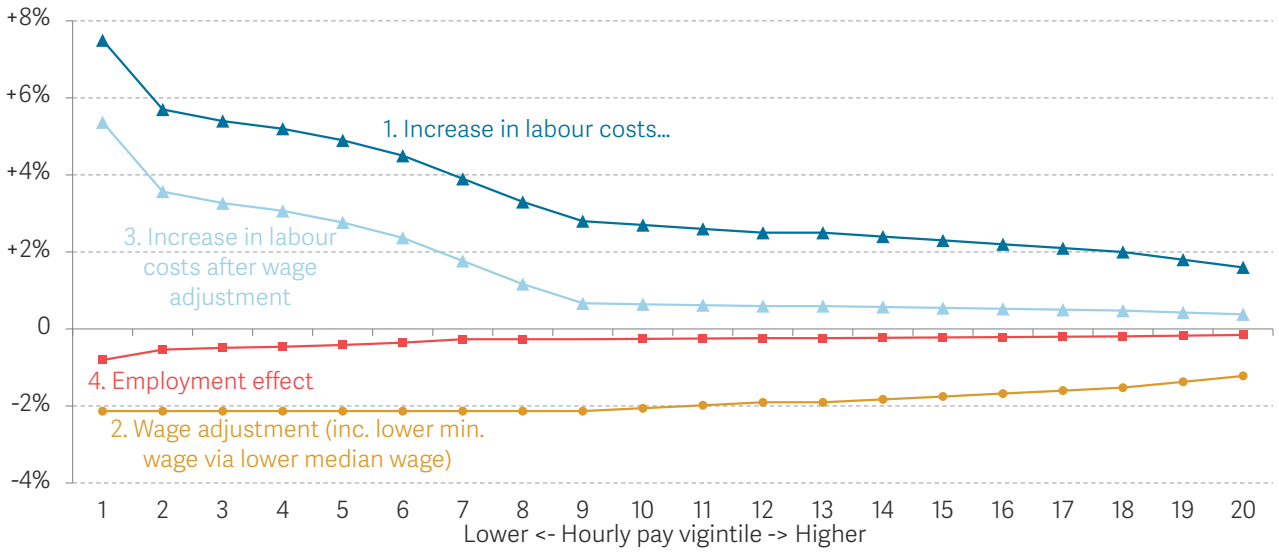
The results of our model, shown in Figure 6, are that overall employment falls by 85,000 (0.3 per cent) as a result of the minimum wage and NICs increase.[9] But this is concentrated among low-paid workers. For workers in the bottom hourly pay quintile (whose hourly pay will be at or close to the minimum wage) we estimate that the number of hours worked will fall by 0.6 per cent. In contrast, above the 40th wage percentile (which is where we assume the minimum wage's spillover effects peter out) impacts on employment exist (because wages are assumed to not adjust fully even without the constraint minimum wage) but are smaller: employment is estimated to fall by 0.2 per cent.

8 The survey in Dube (2019) establishes a conservative value of -0.15 for the 'own wage elasticity' around the minimum wage. See Figure 8 below for more recent estimates. The OBR use a labour demand elasticity – closely related to the own-wage elasticity – of -0.4.

9 This is the fall in employment at average hours which delivers the employment reduction estimated in hours.

FIGURE 6: **Wages will absorb most of the NICs increase, except for minimum wage workers, where employment will have to adjust more**

Direct change in labour costs resulting from increase in mini
mum wage and employer NICs, and estimated wage employment adjustments which follow, by hourly pay



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

The increase in the Employment Allowance will help the smallest employers, but the vast majority of employees work for an employer where NICs bills will be higher in 2025-26

Alongside changes in the employer NICs rate and threshold, the Government is also making the Employment Allowance more generous. The Employment Allowance is an offset that employers can claim against their NICs bill, and the Autumn 2024 Budget increased the maximum offset from £5,000 to £10,500, and employers no longer need NICs liabilities below £100,000 to qualify.[10] These will mitigate the increases in employer NICs, but only by a small degree for all but the smallest businesses, and so we have not included the change in the Employment Allowance in our estimates of employment and wage effects above.

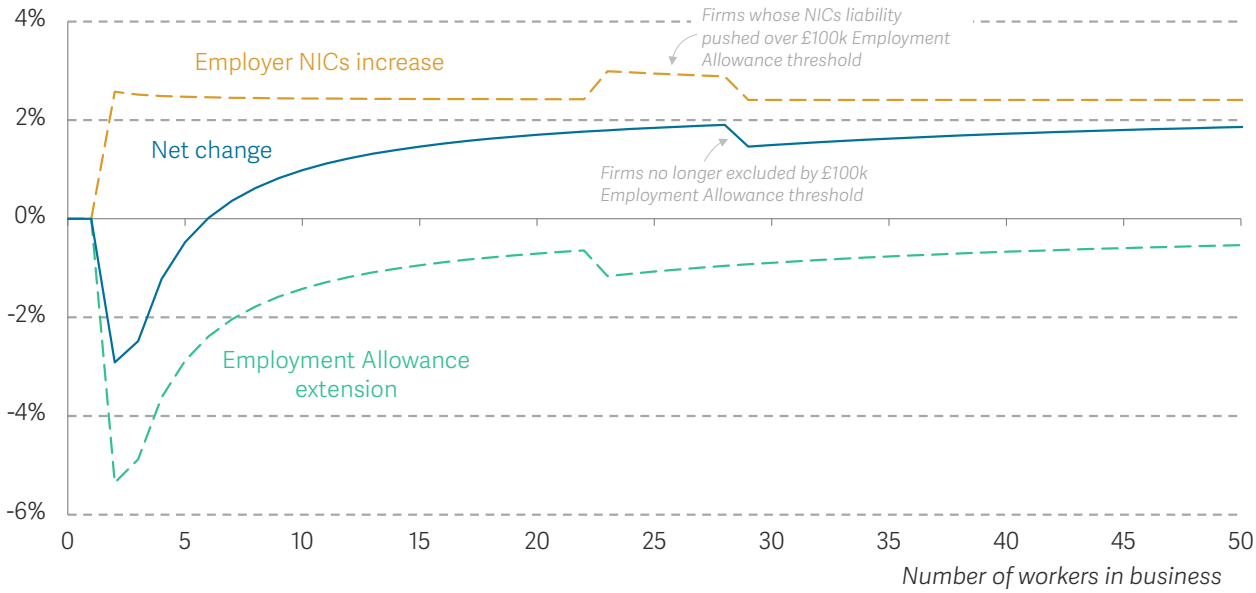
To explain this further, Figure 7 plots the change in labour costs stemming from changes in employer NICs increases and the Employment Allowance change, for businesses by their number of employees. The green line plots the change in business' labour costs resulting from the change to the Employment Allowance in isolation – all businesses will benefit, but the biggest beneficiaries are small employers. For example, a business with five employees earning the economy-wide average weekly pay will see its labour costs

10 The removal of this cliff-edge at £100,000 means that NICs liabilities no longer jump when crossing this threshold. This removes a high tax on firms' growth around this threshold and therefore is a welcome, pro-growth change. The fall in employment would be 69,000 if estimated on a full-time equivalent (40 hours per week) basis.

fall by 3 per cent from the Employment Allowance becoming more generous. For the very smallest employers, the change to the Employment Allowance will more than offset the increase in employer NICs. If all employees were on economy-wide average pay, the total change in NICs and the Employment Allowance would see businesses with five or fewer staff paying lower NICs in 2025, and all other businesses paying more.[11] Overall, though, because most employees work in larger businesses, we estimate that only 4.6 per cent of employees work for an employer where the Employment Allowance change fully offsets the increase in employer NICs (among low-paid employees – with hourly pay in the bottom fifth of the distribution – this figure is somewhat higher at 8 per cent).

FIGURE 7: **Making the Employment Allowance more generous helps all employers, but only very small employers will pay lower NICs in 2025-26 than 2024-25**

Estimated change in employers' labour costs in 2025-26 resulting from increase in employer NICs and extension of Employment Allowance, by firm size



NOTES: Assumes all workers paid economy-wide average weekly earnings of £667 (from ONS's Average Weekly Earnings, three months to January 2025).

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

Tax policy shouldn't be working against minimum wage policy

So far we have shown that the Government's decisions on the minimum wage and employer NICs will substantially raise the labour costs for low earners and may lead to job losses. The coincidence of these two policy changes does seem unfortunate. Every time the minimum wage rises ahead of average earnings, it brings a fresh set of risks to

11 In practice this will under-state the number of net beneficiaries, because earnings are lower, on average, in smaller firms.

jobs, and these become more pronounced as the minimum wage gets higher. To mitigate these risks, other areas of policy should be working in tandem with the minimum wage, rather than amplifying those risks, which is what the NICs change is doing this year.

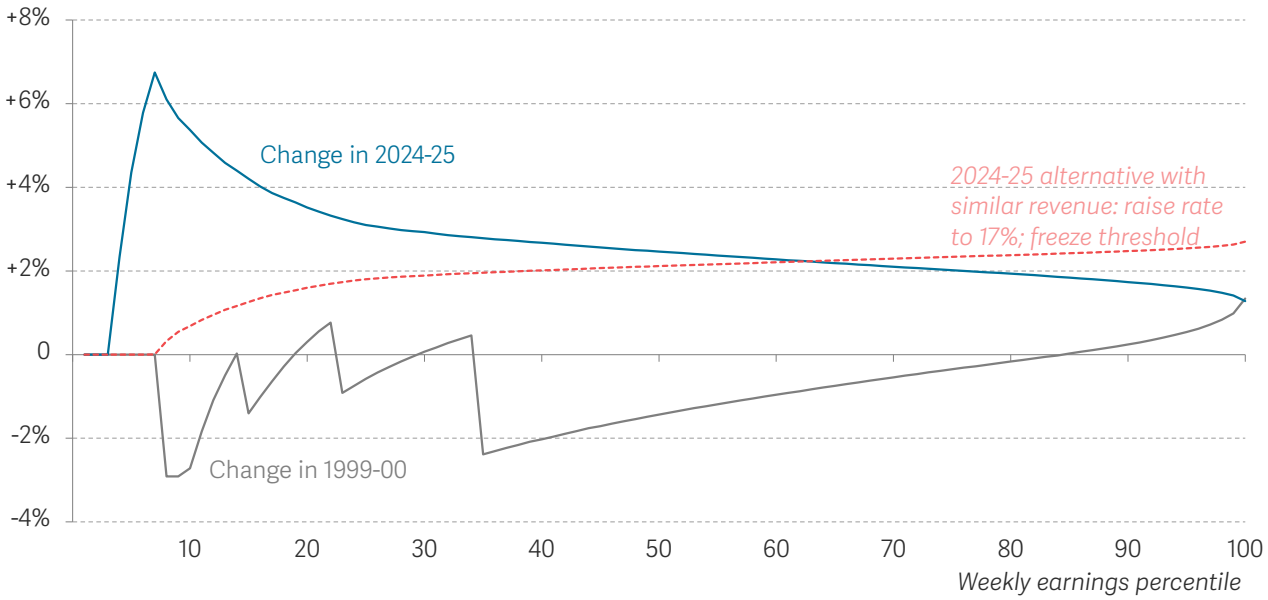
For an example of tax policy working alongside the minimum wage, we can look back to when the minimum wage was introduced, in 1999. In the same year, the new Labour Government made large changes to employer NICs (indeed, these were the largest reforms to employer NICs before this year's changes) which lowered employer NICs for low earners. This was intended to improve employers' incentives to create low-paid jobs, to make it "more attractive to employ people from welfare to work").[12] The impact of the 1999 tax change on labour costs across the weekly earnings distribution is plotted in Figure 8.

Of course, comparing the 1999 and 2025 changes to employer NICs isn't completely fair: the former change was designed to be revenue neutral, and the 2025 change will raise revenue. But even if we accept the Government's decision to raise employer NICs, there were still choices to be made about how to do this. Choosing a tax increase which was less bottom-heavy would have been a more suitable complement to a high and rising minimum wage. One option would have been to keep the threshold where it was (£9,100) but make a larger increase in the rate. We estimate that raising the rate to 17 per cent (alongside a threshold of £9,100) would have raised a similar amount of tax to the actual change. But its impact on the labour costs of low earners would have been much smaller – as is shown in Figure 8. Because more of the impact would be on higher earners – whose wages are not constrained from adjusting by the minimum wage – this alternative tax policy would have had a smaller impact on employment, on our methodology, than the Government's actual policy. We estimate negative employment effects of 66,000, 20 per cent lower than under the actual changes.

12 HM Treasury, New Ambitions for Britain: The financial statement and budget report, March 1998.

FIGURE 8: **The Government could have raised a similar amount of tax in a less bottom-heavy way**

Direct change in labour costs resulting from changes to employer NICs: actual changes in 1999-00 and 2025-26, and hypothetical 2025-26 change



NOTES: Based on 1999 weekly earnings distribution, and 2024 weekly wage distribution uprated to 2025 using OBR wage growth forecast for Q2 2025. The reason that the 1999 change has such a jagged shape is that the previous policy had a number of cliff edges: previously, there were four different thresholds with each higher threshold associated with a higher contribution rate; when a worker's earnings crossed a threshold, their employer paid the next (higher) contribution rate on all their earnings, not just the earnings above the relevant threshold.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings; OBR, Economic and Fiscal Outlook March 2025.

There may be room for further minimum wage increases, but uncertainty about data and policy effects mean these should be made cautiously

The Government doesn't currently have a policy on what the level of the minimum wage rates should be from 2026 onwards; the remit given to Low Pay Commission in summer 2024 covered only the April 2025 increase.[13] This is fairly unusual: in the past, governments have either given the LPC an open-ended remit, or have set multi-year targets.[14]

In the remainder of this briefing note we suggest the approach that previous governments adopted from 2016 to 2024 – of pushing the minimum wage closer to the

13 Department for Business and Trade, National Minimum Wage and National Living Wage: updated Low Pay Commission remit 2024, July 2024.
14 From 1999 to 2015, the LPC's remit was to raise the minimum wage if economic conditions allowed. In 2016, the LPC was asked to raise the minimum wage to 60 per cent of median wages by 2020; in 2019, it was asked to raise it to two-thirds of median wages by 2024.

median – is still, broadly speaking, the right one. The balance of the evidence is that while negative impacts on jobs may exist (including those we estimated will come about as a result of the 2025 uprating, which is exceptional in coming in conjunction with the NICs increase), but they remain small – too small to outweigh the pay boost the minimum wage delivers to low earners. However, a new phase of uprating should involve greater caution than the 2016-2024 phase, which in practice means going more slowly, and giving the LPC greater leeway to divert from any uprating target it is given (which we discuss below, alongside other recommendations).

The evidence on the employment effects of the minimum wage hasn't materially changed, so there is scope to push the minimum wage closer to the median

Arin Dube's 2019 review of the effects of minimum wages laid the groundwork for the 2020-2024 uprating phase which saw the UK's adult minimum wage rate raised to two-thirds of median wages, becoming one of the highest wage floors in the world.[15] The main evidence the review put forward in support of a higher minimum wage was that previous minimum wage increases in the UK and elsewhere had only been found to have "very muted" effects on employment, with effects "close to zero". However, the evidence base on the impact of higher minimum wages was thin, so the review didn't sign off on ever-higher minimum wages. Six years on, the UK's adult minimum wage rate has risen by 16 per cent in real-terms, compared to real-terms growth in median hourly wages of 5 per cent, and now sits at two-thirds of median wages, up from 59 per cent in 2019. So it is sensible to ask whether a new Dube-style review in 2025 would still find evidence that supported the ambition of a higher minimum wage.

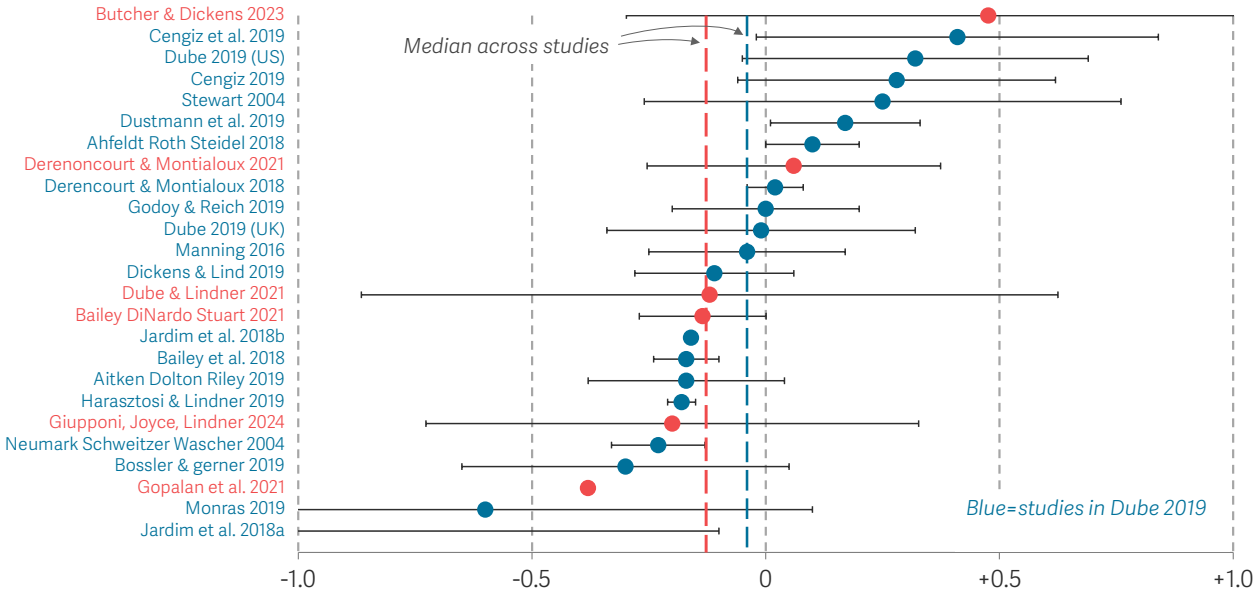
Our conclusion – having done a rapid evidence review to update what was known at the time of the Dube review – is that the evidence still supports further increases, but that this would probably come with a higher dose of uncertainty, given that there are relatively few comparable examples where minimum wages have been raised higher than they are in the UK. In particular, the Dube review looked at a large number of studies and concluded that, although some outlier papers found large effects, the median effect across studies was small.[16] Repeating this exercise, but including more recent studies, would give a similar result. This is shown in Figure 9, which plots the own-wage elasticity estimates included in the 2019 Dube review which considered low-wage workers overall (as opposed to small subgroups), and adds six comparable studies published since.

15 Arin Dube, Impacts of minimum wages: review of the international evidence, HM Treasury and Department for Business, Energy & Industrial Strategy, November 2019.

16 Specifically, the median own-wage elasticity across the studies included was -0.17, meaning a 10 per cent increase in a group's wage in response to a minimum wage increase leads to an employment fall of 1.7 per cent. This is itself a small effect, but the median effect across the studies plotted was even smaller (-0.04) among those looked at a broad group of low-paid workers rather than at a specific age group (such as teenagers) or sector (such as restaurants).

FIGURE 9: **Broad-based studies of minimum wage employment effects undertaken since the 2019 Dube review continue to find small employment effects**

Estimates of 'own wage elasticities' in studies of the employment effects of minimum wage increases made before and since the 2019 Dube review



NOTES: Median estimates are -0.04 among the studies included in the Dube 2019 review and -0.13 among the newer studies. Figure is based on Chart 4B in: A Dube, Impacts of minimum wages: review of the international evidence, November 2019. Blue dots indicate studies included in the Dube review. Only those studies which relate to low-paid workers overall (as opposed to a specific sub-group, such as young workers, or restaurant workers) are shown. Bars provide the standard error of the estimates (not available for all studies). Jardim et al. 2018a OWE estimate was -2.8; chart cropped for readability. Newer studies were identified by asking ChatGPT to provide a list of high-quality academic studies published since 2019 where own-wage elasticities in response to minimum wage increases are estimated (as with those taken from the Dube 2019 review, only estimates based on studies of low-paid workers overall were selected).

What's less clear is whether employment effects remain small at higher minimum wage levels. There remain relatively few studies to draw on here for the simple reason that not many countries have pursued higher minimum wages than the UK. And, where higher minimum wages have been implemented and studied, these tend to be in smaller contexts, such as in specific cities, meaning they are less relevant to debates about national minimum wages (small areas are likely to face relatively elastic demand – i.e. consumers might choose to shop outside the city), so we might expect bigger responses to wage-induced changes in prices).

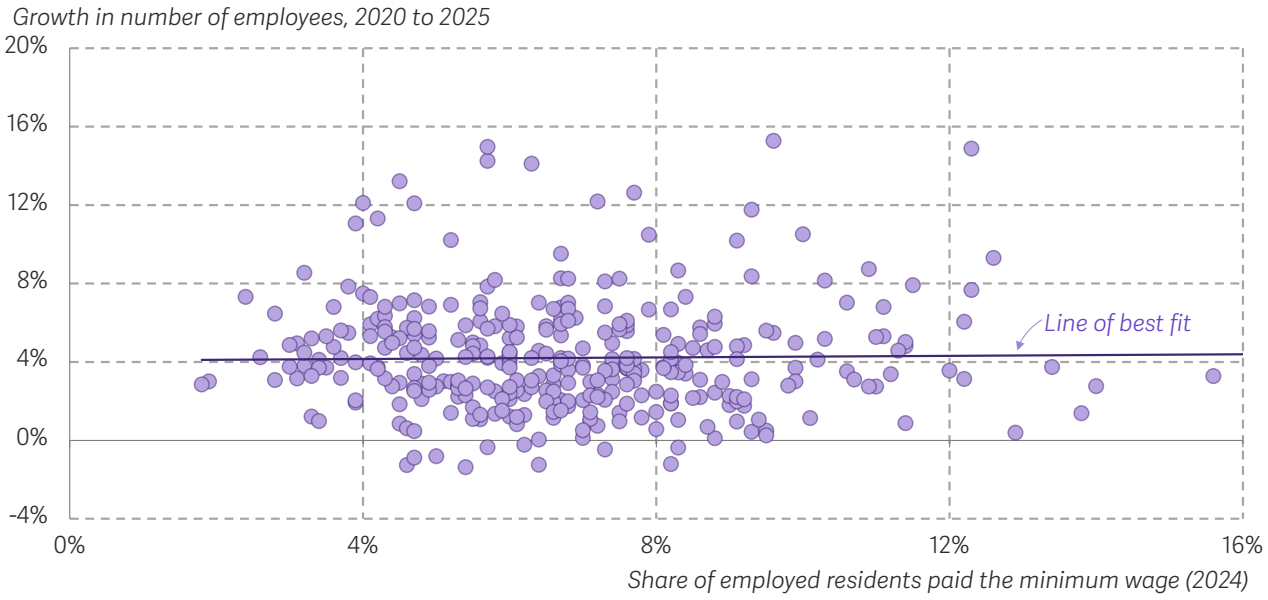
Another source of uncertainty is the fact that it's hard to undertake high-quality studies of the minimum wage in the UK at the moment, meaning we can't be sure about the impact of the latest increases. This is due to problems with labour market data quality, but also due to the presence of Covid as a confounding factor: Covid had lasting effects

on the size of consumer-facing services sectors like hospitality – sectors which also employ a lot of minimum wage workers.[17]

Nevertheless, we can take some encouragement from basic descriptive data. For example, there appears to be no relationship between changes in employment in local areas and the number of workers on the minimum wage (this is plotted in Figure 10, which is an adapted version of a chart published by the LPC in their recent report). This is consistent with, if not evidence of, a lack of significant negative employment effects from recent minimum wage increases.[18]

FIGURE 10: **There is no relationship between minimum wage coverage and employment growth across local areas**

Share of employed residents paid the minimum wage in 2024, and growth in number of resident employees 2020 to 2025, by local authority: UK



NOTES: Growth in employees compares three months to February 2025 with three months to February 2020. Measured based on residence location rather than workplace location because HMRC's PAYE employee counts only include this measure.
SOURCE: RF analysis of Low Pay Commission, minimum wage coverage by local authority, 2024; HMRC, Earnings and employment from PAYE real-time information.

17 This problem was raised by the Low Pay Commission in their report last year: Low Pay Commission, The National minimum Wage Beyond 2024, March 2024.
18 See Figure 5.11 in: Low Pay Commission, Low Pay Commission Report 2024, February 2025.

The minimum wage might have other negative effects beyond employment. But there isn't yet evidence that undesirable effects on prices, work arrangements or pay differentials between jobs outweigh the benefits of higher pay

Effects on employment are the most important of the potential 'costs' associated with minimum wage increases. But there are many other ways in which employers can respond (not all of which are negative), so it's important to take a broad view of these effects. In recent years, three margins of adjustment have raised concern:

- the impact on prices;
- the impact on job quality and work arrangements; and,
- the impacts of wage compression.

While these potentially negative effects should be a legitimate concern, based on what we currently know, our view is that they don't yet justify abandoning minimum-wage uprating. We expand on this below.

The impacts on prices are most straightforward. We know such effects exist – and they do indeed negate some of the benefit workers gain from higher nominal wages – but minimum wage workers only form a small part of businesses' production costs, so we can be confident that aggregate effects are small. There are 1.9 million workers on the minimum wage (about 7 per cent of all employees), but their low wages and their below-average hours worked mean their earnings only represent 2 per cent of the UK-wide wage bill.[19] The relatively small role of minimum-wage workers in determining prices is also confirmed in recent empirical work: a UK study estimated an overall price elasticity with respect to the minimum wage of just 0.02 (meaning a 10 per cent increase in the minimum wage would be expected to raise the overall price level by 0.2 per cent).[20] Effects on prices will be higher on those goods and services produced by sectors which employ a larger share of minimum-wage workers, such as hospitality, or in non-tradeable sectors more generally, where it's easier for employers to change prices in response to local-cost changes.[21] But it's the overall price effect which is most important when worrying about the impact of minimum wages on inflation.

The minimum wage could, in principle, drive down job quality. Alternative work arrangements can be a cost-saver for employers, so it's easy to see why this might be a response some make to increases in labour costs.[22] The rise of gig work, and the fall in

19 Calculated by the Low Pay Commission: Low Pay Commission, The minimum wage beyond 2024, March 2024.
20 Frontier Economics, Estimating the impact of minimum wages on prices: A study for the Low Pay Commission, September 2020.
21 P Harasztozi & A Lindner, Who pays for the minimum wage?, American Economic Review, August 2019.
22 H Slaughter, Firm foundations: Understanding why employers use flexible contracts, Resolution Foundation, April 2024.

low-earners' job satisfaction (to similar levels to higher-paid workers) has raised questions about whether these are both linked to employer responses to higher minimum wages. However, studies so far point to small effects, at most. One study found a modest positive effect on the use of zero-hours contracts: the introduction of the 'National Living Wage' in 2016 (which raised the adult minimum wage by 10 per cent) increased the use of zero-hours contracts in social care by one percentage point (from 12 per cent).[23] But two broader studies find more mixed results. One found the 2016 increase caused a modest increase in the use of zero-hours contracts, but also found (alongside no employment effects) reduced use of temporary and part-time work.[24] Another found that the minimum wage caused firms to increase their use of incentive pay but no impact on firms' use of agency staff or subcontractors.[25]

A third worry is about wage compression is the idea that the minimum wage is scrambling price signals from the labour market to get training, a promotion or a new job. There is no doubt that the minimum wage has caused compression: closing the gap between the minimum wage and median wages was literally government policy for most of the past decade. The minimum wage has, however, probably compressed the pay premium for graduates, but university remains financially worthwhile and applications are at record highs.[26] And there has been no slowdown in progression overall – in 2024 the share of minimum-wage workers moving into higher-paying jobs was similar to 2014-19 (albeit slightly down on 2022 and 2023).[27] The Government should remain vigilant, but there is no cause for concern yet.

On the upside, there is some evidence that higher wages can push the economy to be more capital-intensive – either by prompting firms to invest in labour-saving machinery, or by sending labour-intensive firms to the wall and opening the market to more capital-intensive entrants.[28] The evidence that minimum wages raise overall efficiency by prompting labour reallocation towards more efficient firms is more mixed, however. A study using data for Germany finds some effect along these lines, but a model calibrated to match broader evidence on minimum wages finds that these effects are small.[29]

23 N Datta et al., Zero-hours contracts and labour market policy, Economic Policy, February 2020.
24 Albagli et al., Minimum wage effects: adjustment through labour market dynamics and alternative work arrangements: A report for the Low Pay Commission, Centre for Economic Performance, November 2024.
25 Giupponi et al., The impact of the National Living Wage introduction on firms' pay and contractual arrangements, Institute for Fiscal Studies, September 2024.
26 D Willetts, Are universities worth it? A review of the evidence and policy options, The Policy institute, Kings College London, January 2025. And https://www.ucas.com/corporate/news-and-key-documents/news/ucas-releases-undergraduate-january-equal-consideration-applicant-data-2025
27 Low Pay Commission, Low Pay Commission Report 2024, February 2025.
28 See: P Harasztozi & A Lindner, Who pays for the minimum wage?, American Economic Review, August 2019; and: D Aaronson et al., Industry dynamics and the minimum wage: A putty-clay approach, International Economic Review, November 2017.
29 For the evidence of reallocation effects in Germany, see: C Dustmann et al., Reallocation effects of the minimum wage, Quarterly Journal of Economics, February 2022. For the evidence that these effects are small, see: D Berger, K Herkenhoff & S Mongey, Labour Market Power, American Economic Review, April 2022.

Overall, our assessment is that the evidence base on minimum wage effects hasn't changed significantly since the 2019 Dube review. Estimates of the employment effects are still small, and the most important change is that there is now new evidence of (modest) negative effects on work arrangements. In light of this, our judgement is that it's too early to call time on minimum-wage uprating.

Problems with labour-market data and big changes to employment policy being made in this Parliament mean it's right to move cautiously

Nevertheless, there are several reasons why policy makers should adopt greater caution. First, the minimum wage is now at a much higher level than a decade ago. This means that the evidence base on the impact of higher minimum wages is thinner, and that we must be closer to the point at which negative effects become more serious. Second, the fact that questionable labour-market data makes it harder to monitor the effects of minimum-wage increases – and on the increase in employer NICs – mean it's a good idea to drive more slowly given poor visibility. And third, the Government is undertaking large employment reforms some of which will raise the labour costs of low earners, such as extending statutory sick pay coverage and regulating the use of zero-hours contracts.[30]

In light of this changed context, and the evidence discussed above, we conclude with four recommendations for minimum-wage policy beyond this year.

1. **Continued but slower uprating:** Continue raising the 'bite' of the minimum wage (its level relative to median wages), but do so at a slower pace than in the past. We suggest a pace of 1 percentage point per year, which is roughly half the pace of the 2016 to 2024 era. Assuming the bite in 2025 turns out to sit where we expect it to be – at two-thirds of median wages – then this policy would imply a target bite of 70 per cent by 2028. However, it's important to be clear that what matters is the pace of increase – 1 percentage point per year – rather than a fixed end-point, hence our suggestion below about being able to phase-in any changes in response to data revisions.

2. **Knowing when to hold steady:** when the costs of a higher minimum wage exceed its benefits – the minimum wage should be held steady relative to average wages. This is a hard judgement to make given the multiple effects (on the labour market, the economy, and on business) the LPC is asked to consider. One approach to make this decision easier would be to give the LPC more specific evidence about what size of negative effects are acceptable (for example, we have suggested a threshold of 'own-wage elasticity'

30 N Cominetti, Low Pay Britain 2024, Resolution Foundation, September 2024.

estimates in response to minimum wage increases of greater than -0.3).[31] However, in practice, such evidence always comes with uncertainty. We also suggest, therefore, that the Government should periodically commission an independent review of the evidence about the full effects of the minimum wage – as Arin Dube did in 2019 – and use that to form a judgement about whether the minimum wage should continue to rise faster than average wages. The Government should commission such a review in this Parliament, meaning no later than 2029 – a decade on from the Dube review.

3. **Flexibility in implementation:**

a. The Low Pay Commission (LPC) should have more discretion in its implementation of its target path. It should be empowered to deviate from the path if it judges there are employment, or other, risks. Furthermore, given the problems caused by poor UK labour market data at present, it should not have to clear a high evidentiary bar to do so (i.e. forward-looking concerns should be sufficient grounds for the LPC to divert from target, it shouldn't have to produce evidence of effects which have already materialised). Additionally, its remit should allow it to pass through the effects of any data revisions affecting the expected path of median wages gradually, rather than all at once (as happened this year in response to the ONS's ASHE revision, discussed earlier).

b) The youth minimum wage rates should not be abolished. The fact that young workers (aged under 21) aren't affected by the employer NICs increase will mitigate employment risks this year, but there remains uncertainty about the impact of the Government's employment reforms on younger workers, who will benefit more, on average, than older workers (as they are more likely to be on zero-hours contracts, or reliant on statutory sick pay, for example).[32] The Government should retain the flexibility to adjust the youth rates in light of the specific labour-market conditions faced by young workers. Retaining the youth rates may also allow more progress on the adult rate, if the youth rates become constrained by evidence of negative effects.

c) The minimum wage rates should not be linked to the real Living Wage, an idea that some people have argued is implied by the Labour Party's manifesto.[33] The real Living Wage is an important living standards benchmark, but there

31 N Cominetti et al., Low Pay Britain 2023, Resolution Foundation, April 2023.
32 N Cominetti, Low Pay Britain 2024, Resolution Foundation, September 2024.
33 The manifesto said: "Labour will … make sure the minimum wage is a genuine living wage." Labour Party, Change: The Labour Party Manifesto 2024, June 2024.

is no reason to think that it meets the objective of the legal minimum wage, which is to maximise low earners' pay subject to employment and other trade-offs. Making the real Living Wage the basis of the legal minimum wage would also remove policy makers' ability to respond flexibly to changing economic conditions.

4. **Coordination.** Minimum-wage policy should be better coordinated with other areas of policy. Specifically, the Low Pay Commission should be able to recommend minimum-wage changes with full knowledge of other important policy changes which affect low earners, especially those which directly raise labour costs, such as the increase in employer NICs. Currently, the LPC provides the Government with its rate recommendation in advance of the Budget in the autumn, and the Government announces its decision at the Budget alongside any other changes. Better coordination could be achieved in different ways. The most realistic option is for the LPC to recommend its minimum wage rates after the Budget. The downsides of this change would be that the Government couldn't announce the new minimum wage rates at the Budget, and that the OBR wouldn't be able to include its exact value when producing its forecasts (although under a clear bite-raising remit this wouldn't be a significant problem – the OBR would be able to estimate the rates very well). A benefit of this approach would be that the LPC could draw on the OBR's forecasts for its rate setting. Alternative, but less realistic options, include either the Government giving LPC advance notice of its Budget measures, or giving the LPC the option to revise its recommendation after the Budget in light of any important measures announced.

Annex

Data citations

- Annual Survey of Hours and Earnings (series page here):
    - Office for National Statistics, released 08 February 2024, ONS SRS Metadata Catalogue, dataset, Annual Survey of Hours and Earnings - GB, https://doi.org/10.57906/x25d-4j96

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