

# Improving the labour market experience for low-paid workers in Britain

**Research at the University of Sussex, originally commissioned on behalf of the Low Pay Commission (LPC), has informed and influenced LPC reports that advise government on issues relating to the National Minimum Wage (NMW) and its impact on employment rates, in particular among vulnerable sectors of the labour market. As a result of this research, the age of eligibility for the NMW was lowered from 22 to 21 years in 2010, leading to 55,000 young British workers benefiting directly from a 20 per cent increase in wages.**

## Overview

The Low Pay Commission (LPC), established as a result of the National Minimum Wage Act 1998, is an independent body that advises the government on matters relating to the National Minimum Wage (NMW). The NMW is the hourly rate below which adults in most sectors of the British economy must not be paid.

The research of Richard Dickens (Professor of Economics and Head of the Department of Economics at the University of Sussex) on the impact of NMW on wages and employment has for several years fed into the recommendations made by the LPC. Research carried out from 2007 to 2012, in conjunction with co-researchers Rebecca Riley and David Wilkinson (National Institute for Economic and Social Research), Peter Dolton (Sussex), Tim Butcher (LPC) and Alan Manning (London School of Economics), was undertaken on behalf of the LPC and presented in various



‘Professor Richard Dickens has been one of the most important contributors to the evidence base of the LPC since it was established in 1997... His most influential work has probably been on the impact of the minimum wage on the employment of young people ... They concluded that there would be little harm to the employment prospects of 21-year-olds in legislating to start the adult rate of the NMW at 21. This was a very important factor in strengthening our evidence base sufficiently to convince the Government to change policy. The starting age of adult rate was changed to 21 in October 2010.’

Tim Butcher, LPC Chief Economist

LPC reports. Their findings have helped inform the rate at which the NMW is set, the associated regulations and the LPC’s evaluation of the impact of the NMW.

Research by Dickens and colleagues, commissioned by the LPC (2009/2010) exploited the age-related structure of the NMW to investigate the effects of turning 22 and qualifying for the adult NMW. The study analysed the effects on various labour markets between 1999 and 2009 and suggested a 3 to 4 percentage point increase in employment rate among low-skilled workers as a result of the mandatory higher wage paid at the age of 22 years. This difference was explained in part by declines in male

unemployment and female inactivity (ie those women who are neither in employment nor seeking work). No such effect at age 22 years was observed before the introduction of the NMW in 1999 and no robust impact was seen at the ages of 21 and 23 years. Their research concluded that there would be little negative effect on employment rate from paying the NMW to 21-year-olds.

Importantly, the team showed that, although the NMW never affects more than 5 per cent of workers, the introduction of the NMW has led to decline in inequality at the lower end of the pay scale with relative wage increases up to the 25th percentile. This provides empirical evidence



that changes in the NMW have considerable positive impact on wages further up the pay scale as firms seek to retain pay differentials between employees on different grades.

Existing evidence on the effects of the NMW suggested no impact on employment other than raising wages for affected workers. This research was, however, based on data from a period of economic prosperity and focused on all workers rather than specifically on vulnerable workers on low pay. Using data from 1994 to 2010, including a period of economic recession in the late 2000s, Dickens and colleagues demonstrated that for the most vulnerable workers – women working part-time – the NMW was associated with reductions in employment retention rates and that the 2008 recession combined with the NMW led to further reductions in employment in this group. In contrast, another of their studies on the impact of industry-level minimum wages for the recession of the early 1980s and 1990s found no employment impact from the NMW and no additional impact during recessions.

## Achieving impact

The impact of Dickens' research has been considerable, improving the wages of thousands of young British workers. Around 55,000 young workers have benefited from a 20 per cent wage increase as a result of legislative changes (NMW Regulations 2010) that reduced the age of eligibility for the NMW from 22 to 21 years. A 2010 survey of British political scientists by the Institute for Government voted the NMW as the most successful government policy of the last 30 years. Tim Butcher, Chief Economist for the LPC, noted in a written testimonial that: 'Professor Dickens' work has played an important role in achieving that outcome'.

The LPC had previously recommended that the rate for the adult NMW should apply at the age of 21; however, the Government at the time rejected this original proposal. Citing Dickens' research in reports to the government in 2009/2010, the LPC represented their case and were successful in persuading the government to accept their recommendations, leading to the above-mentioned change in legislation that came into effect in 2010.



The LPC seeks to build consensus across employee, employer and independent members of the commission and relies on a strong evidence base on which to establish their deliberations. Several studies by Dickens and colleagues are heavily cited by the LPC in various reports (2009, 2011, 2012, 2013). Each year, research evidence is presented during the LPC's methodology workshops held in April where Commissioners and other researchers are invited to comment. Final results following this deliberation process are then presented directly to Commissioners at their annual workshop in September. Policy conclusions are then discussed followed by preparation of a final report for deliberation and publication.

As part of this deliberation process, evidence regarding the negative effects on employment for part-time women was discussed extensively at an LPC workshop in October 2011 and this, together with work on age-related structure of the NMW, informed subsequent deliberations of the impact of NMW on vulnerable workers during recession. Furthermore, the research of Dickens and colleagues strongly supported the LPC's view that, after almost two decades of rising wage inequality, it was the NMW that was largely responsible for observed falls in pay differentials at the bottom end of the pay scale. This finding has provided both the LPC and the Government with strong validation for the use of the NMW as a policy tool to

tackle low pay and wage inequality and helped allay fears that the NMW would lead to a significant wage-price spiral.

## Future impact

In June 2014, Professor Dickens was appointed to the LPC as an Independent Member, a role in which he is directly involved in the setting of the NMW.

## Funding and partnership

All of the underpinning research was either funded by the LPC or conducted with LPC Chief Economist, Tim Butcher.

## Working with us

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