

# The future of the minimum wage

The employer perspective

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**Learning and Work Institute**

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## Foreword

This report, the second in our series looking at the Future of the Minimum Wage, seeks to examine the employers' perspective on planned increases in the minimum wage.

Decent pay is a critical aspect of 'good work,' with the idea that entering work should bolster your income being an important part of our social contract. The implementation of the National Minimum Wage twenty years ago introduced a wage floor below which it was considered unacceptable to let people fall. It is widely considered a policy success story, seen as having successfully reduced extreme low pay without damaging employment.

When we began our enquiry at the start of 2020, the policy of continually, incrementally increasing the Minimum Wage felt an established political norm. The UK Government had committed to a five-year path of increasing and expanding the Minimum Wage rate. Policy differences were on questions of pace and level: there was a sense that much had been done but much was still to do, with in-work poverty impacting millions. There were legitimate questions about the impact of increases on workers, employers and the economy; as well as under-examined issues about the relationship between the Minimum Wage and other aspects of good work, such as job security, work intensity, in-work progression and training.

Our research sets out to address these questions - but the labour market where we began our enquiry at the turn of the year is drastically altered by COVID-19. There is deep concern that unemployment is set to rise sharply, to unprecedented levels, biting hardest into sectors such as retail and hospitality where many workers are employed at the wage floor. Our collective understanding of the impact of COVID-19 is still developing. High unemployment and the unprecedented operational challenges facing employers may make the policy of increasing the Minimum Wage more contentious. At the same time, there has been an upsurge in public recognition for the efforts of key workers during the crisis, many of whom are on the Minimum Wage, and a widespread mood for 'building back better' and strengthening our social contract - including our relationship with the labour market.

The nationally representative employer polling at the centre of this report took place just as the UK's 'lockdown' was being implemented. The fascinating findings – which show an overall majority of support for increasing the Minimum Wage - are coupled with suggestions for how government could support employers to raise the wage floor without facing difficult trade-offs between pay and other aspects of their job quality offer. This report is thus a contribution to an important conversation that needs to be held. As we are adapting to a 'new normal' in business models and facing a different equilibrium in our labour market, how do employers feel now about increases to the Minimum Wage? What can be done to support those industries particularly affected by the Coronavirus and prospective Minimum Wage increases? What about our future trading arrangements when we exit the European Union? How will the combination of these forces interact with the

widely held ambition to ‘build back better,’ in society and in our labour market, of which ensuring decent pay and combatting in-work poverty remains of fundamental importance?

**We would welcome contributions and insights from more employers into these critical questions.** These will be used to inform the recommendations in our final Future of the Minimum Wage report, which we will publish with the Learning and Work Institute in the autumn.

In the meantime, I would like to thank colleagues at the Learning and Work Institute who conducted the research for this report. I echo their thanks to the employers and representative bodies who took part in the research or spoke with us to share their insights – it is greatly appreciated, particularly given the pressures of the current times.

**Douglas White, Head of Advocacy**

**Carnegie UK Trust**

# Introduction

Learning and Work Institute (L&W) is working with Carnegie UK Trust to explore the impact of increasing the minimum wage on workers, employers and the economy. Building on the evidence and in dialogue with workers and employers, we will explore the opportunities and risks of a higher minimum wage, while examining the implications for other key aspects of 'good work', including access, security, progression and training.

This is the second report in the series, looking into how employers reacted to the introduction of and increases to the minimum wage in the past, how they feel they will be able to handle planned future increases, and what support they might need. It builds on our first report, which focussed on the experience and perspective of low paid workers. The final report, out later in 2020, will bring together our findings with additional statistical analysis of the impact of minimum wage increases, and make recommendations for how minimum wage policy can sit within wider policy to reduce low pay and in work poverty. It will consider the analysis and policy recommendations in light of the coronavirus pandemic, and the UK's upcoming exit from the European Union.

## Employment and the minimum wage

The minimum wage has been one of the most successful policies in recent years. Its introduction two decades ago led to a substantial reduction in extreme low pay, without a significant a negative impact on employment levels (Resolution Foundation, 2014).

The minimum wage has maintained a broad and lasting political consensus, and wide popular support.

The current UK government has committed to further increases to the minimum wage, with a target of the NLW reaching two thirds of median earnings by 2024<sup>1</sup>, as well as extending this to all those 21 and over. This pledge was made at the end of last year, when employment had reached a record high. It is not yet clear how the coronavirus pandemic and the significant associated impact on employment will affect this promise.

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<sup>1</sup> At the time of the pledge, this was projected to be £10.50.

### **What is the minimum wage and how is it set?**

The National Minimum Wage Act came into force in April 1999. It was the first time government had set an economy-wide wage floor in the UK. The Low Pay Commission (LPC) was established as a non-departmental public body – with representation from employers, trade unions and economists – to advise government on the level of the minimum wage (NMW).

In 2015, the newly elected Conservative Government announced plans for a ‘National Living Wage’ (NLW) – a higher minimum wage for those aged 25 and over. Introduced the following year, the Government set a target of the NLW hitting 60% of median earnings by 2020; a target it hit with the most recent increases in April 2020.

The NLW today is £8.72, following the largest increase in the wage floor since the introduction of the NMW in April 2020, of 51p. The minimum wage for younger workers is lower, with the rate for those aged 16-17 being just £4.55 in 2020/21, the rate for those aged 18-20 being £6.45, and 21-24 year olds getting £8.20. The minimum wage for apprentices is lower still at £4.15.

As part of their role in reviewing and recommending NMW and NLW increases, the LPC seeks to strike a balance between recommending these increases and avoiding job losses and unemployment (LPC, 2020).

**The minimum wage has helped tackle low pay, but it has not reduced in-work poverty.** The introduction of the NMW significantly reduced extreme low pay<sup>2</sup> (Resolution Foundation, 2014) and the introduction of the NLW has significantly reduced low pay<sup>3</sup> (Resolution Foundation, 2019). However, a large proportion of workers still earn below the real Living Wage<sup>4</sup>, and despite the recent increase in the wage floor, we have also seen an increase in in-work poverty (JRF, 2020). This can be attributed to a number of factors, including hours intensity, an increase in the cost of living, and that only a minority of low paid workers live in low income households.

**The minimum wage has increased pay without costing jobs.** While we have seen this increase in pay and reduction in low pay, this has not come with associated job losses. Employment actually increased significantly following the introduction of the NMW and the NLW, rising to a record high pre-coronavirus. Evaluations of the introduction of and

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<sup>2</sup> Earning below half of median hourly earnings

<sup>3</sup> Earning below two thirds of median hourly earnings

<sup>4</sup> The real Living Wage is different from the NLW. It is a voluntary minimum wage calculated by the Living Wage Foundation. It is calculated based on the cost of a basket of goods and services that represent an acceptable standard of living. The ability for an individual to live free from poverty varies on an individual basis, dependent on hourly pay, hours worked, other income and household needs. [Livingwage.org.uk](http://Livingwage.org.uk)

increases to the NLW have shown that there has been little of no employment impact (LPC, 2018).

There had been concerns that some employers could struggle to afford higher wage bills as a result of a higher minimum wage, and that they would have to reduce their headcount as a result. A further concern was that employers would not be willing to pay some employees the NMW as their work was not seen as having this value, and these employees would either lose their jobs or not be hired in the first place (Avram and Harkness, 2019). While there is little evidence of this happening as a result of recent increases, the employment implications of the minimum wage play a major role in the decisions of government and LPC when determining the level and incremental increases to the NMW and NLW (LPC, 2020).

Despite these fears surrounding the possible labour market impacts of the minimum wage the reality is that the predicted negative consequences of the minimum wage have not yet materialised. The period following the introduction of the NLW saw a significant increase in employment, which reached record levels ahead of the coronavirus pandemic. Since 2016 there has been a significant reduction in the proportion of those in the low pay category with it falling 3.6% to 17.1% by 2018, representing the lowest proportion in low pay for nearly four decades (Resolution Foundation, 2019). Overall, the minimum wage has supported low earner wage growth whilst not damaging levels of employment (ibid.).

### Coronavirus and the minimum wage

The wider economic and labour market context today are very different than they were when the government committed to increasing and extending the NLW. The coronavirus outbreak, and the measures taken by government to prevent the spread of the virus, will have a significant and lasting impact on the economy.

Despite the measures taken by government to protect the economy and jobs, we are seeing a very substantial decline in employment from the record high reached at the start of this year. The scale and duration of the employment impact is impossible to predict.

The polling for this paper was undertaken in March 2020, as the coronavirus pandemic was spreading, with fieldwork occurring during the week the UK went into 'lockdown'. The polling was supplemented by interviews with industry bodies, including those representing sectors hit hardest by the lockdown.

This report explores employer perceptions of the minimum wage and the plans to increase the NLW. It examines the potential impact on employers, how they may respond, and the support they say they would need to adapt. It also acknowledges the very specific circumstances in which it has been written, and the challenges that employers are facing as a result of the coronavirus pandemic. Finally, the report considers what this might mean for the immediate and medium-term future of minimum wage policy.

## Methodology

The future of the minimum wage project is using a mixed-method approach. The fieldwork for the second report was carried out during the coronavirus outbreak in the UK. The research for this paper included:

- A representative survey of 1,002 businesses in Great Britain
- Qualitative interviews with industry bodies:
  - British Retail Consortium
  - National Care Association
  - Recruitment and Employment Confederation
  - Scottish Care
- A literature review.

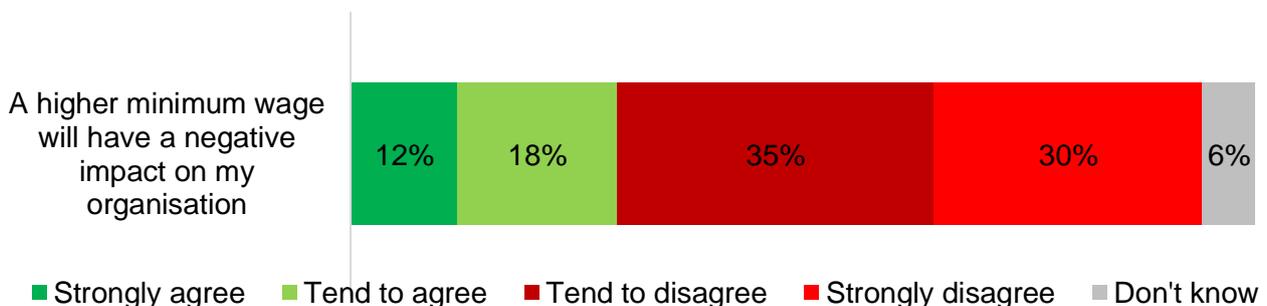
# Employer support for minimum wage increases

In this section, we explore the views of employers in the UK of the minimum wage. We examine general views about increasing the minimum wage, and of the pre-COVID-19 proposals to increase the wage floor. The findings are based on both the representative survey of businesses across the UK, and interviews with employer and sector representatives.

## Increasing the minimum wage

In our polling, we asked businesses what impact they thought further increases in the minimum wage would have on them. Figure 1 shows that two out of three (65%) of businesses said that it would not have a negative impact on them, while less than one in three businesses (29%) reported that a higher minimum wage would have a negative impact on their organisation.

**Figure 1: Perceptions of impact on organisation of increasing the minimum wage**



We wanted to understand what factors are associated with employers' attitudes towards the impact of a higher minimum wage on their organisation. Throughout, we examine how different factors including: a higher proportion of workers on the minimum wage, the size of a business, the sector and where an employer is located might influence how employers view increases in the minimum wage.

As shown in Figure 2, we found that:

- **Businesses with a higher proportion of low paid workers are more likely to be concerned about the impact of a higher minimum wage.** Most (55%) organisations with more than a quarter of their employees currently on less than £10.50, said that an increase to the minimum wage would impact their business negatively. This compares with 31% of businesses with less than a quarter of their employees paid below this level.
- **Smaller businesses were more concerned about the impact of increasing the minimum wage.** Those with 10-49 employees were most concerned about an increase in the minimum wage. They were more likely to say it would have a

negative impact on their organisation (37%), compared to 31% of those with 50+ employees.

- **Businesses in low pay sectors – including many hit hardest by the coronavirus crisis – were more concerned about the impact of increasing the minimum wage.** Businesses in hospitality and leisure (41%), medical and health services (41%), manufacturing (40%) and retail (38%) were the most likely to say the minimum wage would impact them negatively. This is compared to businesses in legal (19%), IT and telecoms (19%) and media, marketing, PR and advertising (21%), who are the least concerned about a negative impact.
- **Businesses in the South and in London are less likely to be concerned about an increase to the minimum wage than other regions.** 29% of businesses in London and 25% in the South thought it would have a negative impact, compared to 37% in the North.

**Figure 2: Breakdown of agreement with ‘a higher minimum wage will have a negative impact on my organisation’**



\*Note: Base size for medical and health services is 51, so treat results with caution

Beyond the impact on their own organisation, we wanted to understand employer perceptions of the wider economic impact of further increases in the minimum wage. Therefore, we asked about how they thought this would impact on unemployment levels and productivity across the UK economy. The results in figure 3 show that:

- **Most businesses do not think that a higher minimum wage will lead to higher unemployment.** Just over one in three businesses (33%) said that they thought that a higher minimum wage will lead to higher levels of unemployment in the UK, compared to a majority (57%) who disagreed.

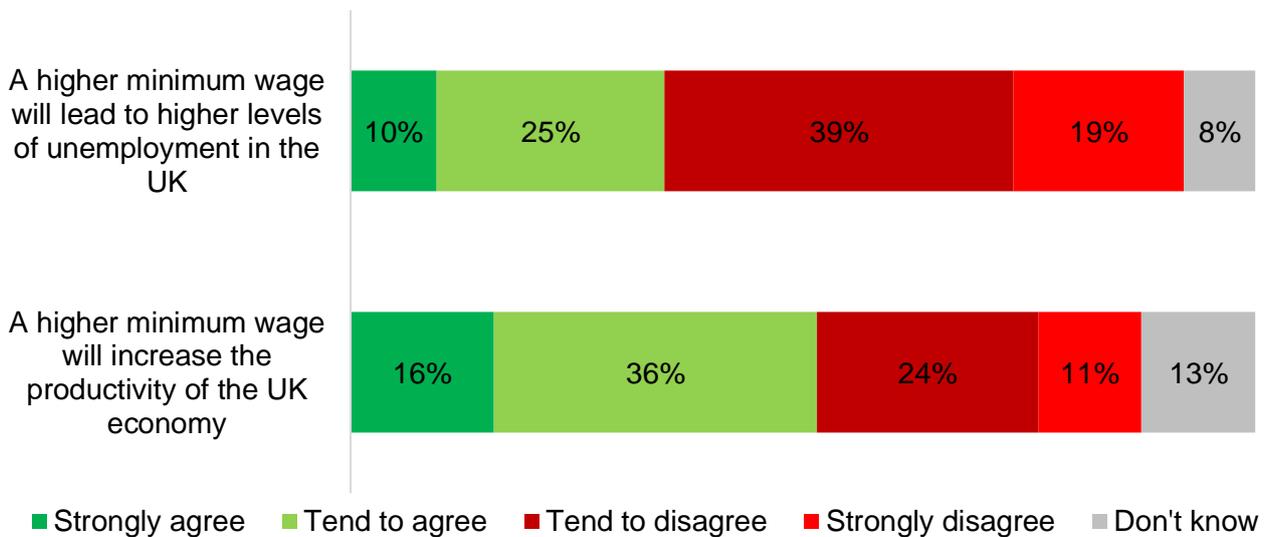
- **Around half of businesses think that a higher minimum wage would lead to higher productivity.** A slim majority of businesses (52%) agreed that increases to the minimum wage would lead to increases in productivity in the UK economy.

As with the impact to their own organisation, businesses in manufacturing (45%) and retail (39%) are more likely to fear the impact on wider unemployment in the UK, compared to 25% of those in media, marketing, advertising and PR, and 28% of those in IT and telecoms.

Manufacturing businesses (44%), and those in hospitality and leisure (39%) are more likely to disagree that a higher minimum wage would increase the productivity of the UK economy. These are particularly high levels of disagreement compared to IT and telecoms (27%) and media, marketing, advertising and PR (29%).

As with the impact to their own business, organisations in London are less concerned than other areas about a potential higher minimum wage. Just two in three (29%) thought it could lead to higher levels of unemployment, while 62% believe it would increase the productivity of the UK economy.

**Figure 3: Perceptions of impact of higher minimum wage on UK economy**



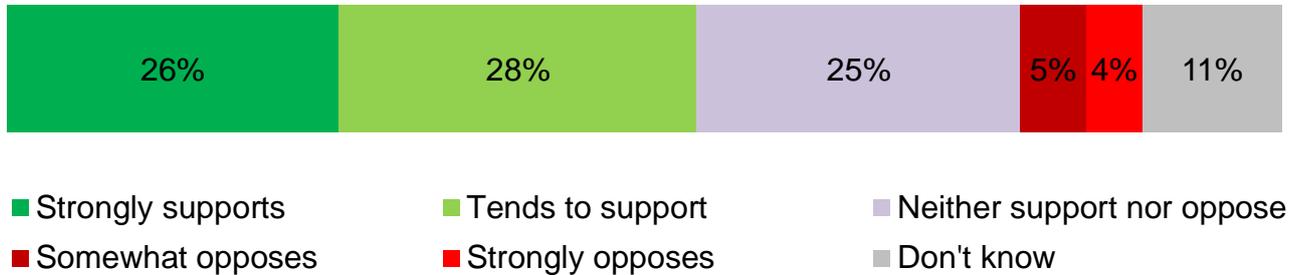
### Future increase in the wage floor

In addition to asking businesses about how the increase in the minimum wage might affect their organisation and the wider economy, businesses were asked about whether they supported the government plans to increase the NLW to £10.50 by 2024 and to extend it to all workers aged 21. Figure 4 shows that:

- **A majority of businesses support the planned increase to the minimum wage.** Over half (54%) of businesses polled supported the government plans to increase the National Living Wage to £10.50 by 2024 and to extend it to all workers aged 21 and over. Within this, a quarter (26%) of businesses strongly supported the plan.

- A quarter of businesses didn't have an opinion on the minimum wage policy: 25% reported neither supporting nor opposing the measure.
- And only one in ten (10%) opposed the policy.

**Figure 4: Level of support for the government's plan to increase the NLW by 2024**

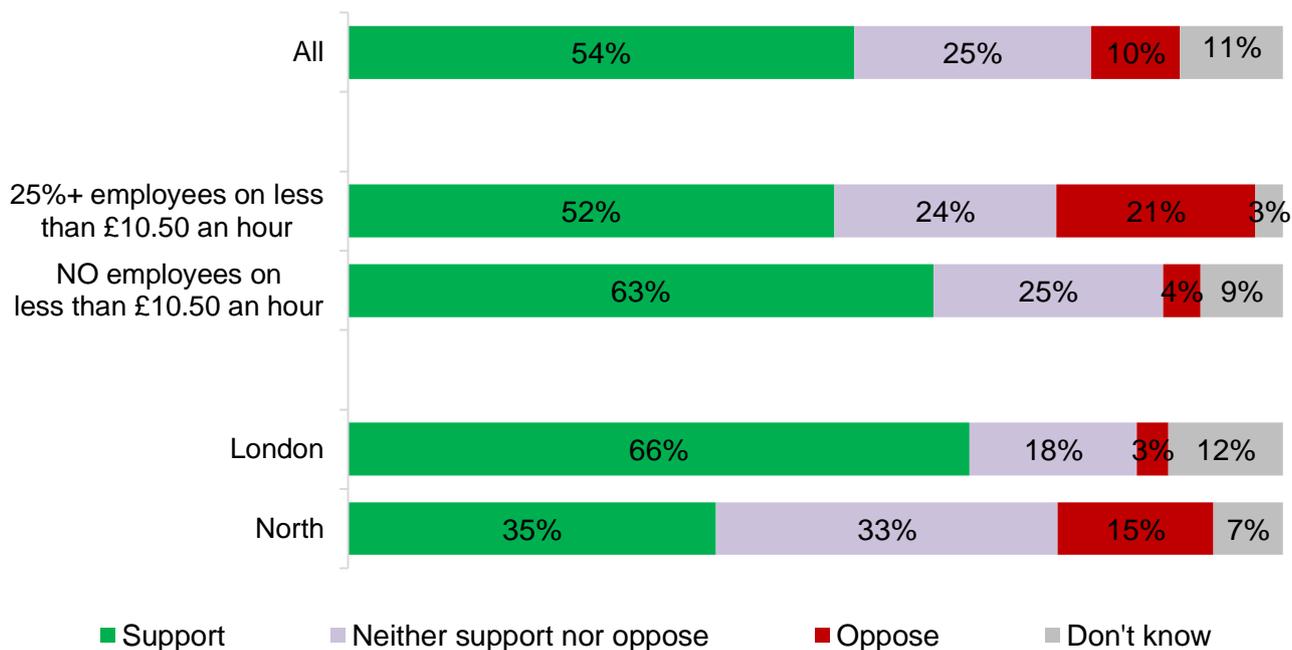


The support for the government's plans to increase the National Living Wage among businesses is mirrored by strong popular support among the general public. We found in the first report that two in three (66%) adults backed the plan to increase the NLW, with fewer than one in ten (9%) being opposed. Support was stronger among low paid workers (L&W, 2020).

There are some interesting patterns in the level of support for the government's plans to increase and extend the NLW among different businesses. The data in figure 5 shows:

- Support for increasing the NLW was highest among businesses who pay all of their employees above £10.50, with two in three of these businesses supporting the government's plans.
- **However, there is support for increasing the minimum wage even among businesses that are most likely to be most impacted.** Just over half (52%) of businesses with a quarter or more of their workers earning less than £10.50 supported the government's plan for increasing the NLW.
- Businesses in London are also significantly more likely than all other regions in England to support the government plans, in particular the North, where only a third (35%) of businesses support the plan.

**Figure 5: Breakdown of support for the government’s NLW 2024 plan**



The level of support in London is perhaps unsurprising. Pay is generally higher in the region, and there are fewer employers with a higher proportion of workers currently earning below £10.50, and therefore fewer employers directly affected by the impact of an increasing minimum wage.

These initial findings of the analysis show that businesses broadly support the minimum wage, although the extent of support is associated with a number of factors. Most notably, businesses with more staff currently paid on or near the NLW, and businesses in lower paying sectors are more likely to be concerned about further increases to the minimum wage.

While this research shows support from employers, it is not yet clear what impact the coronavirus crisis will have on views of the minimum wage. However, we are seeing some industries with high levels of employees on or near the minimum wage calling for a delay to planned increases (Gartside, 2020). In addition, recent research found that a majority (58%) of employers say that they would support a freeze of the NLW at its current rate in April 2021, when the next increase is due, with a quarter not supporting such a freeze (CIPD, 2020b). While this is an important finding, it does not necessarily indicate changes to wider support for minimum wage increases, or the overall goal of reaching two thirds of median pay in the coming years.

## Employer responses to minimum wage increases

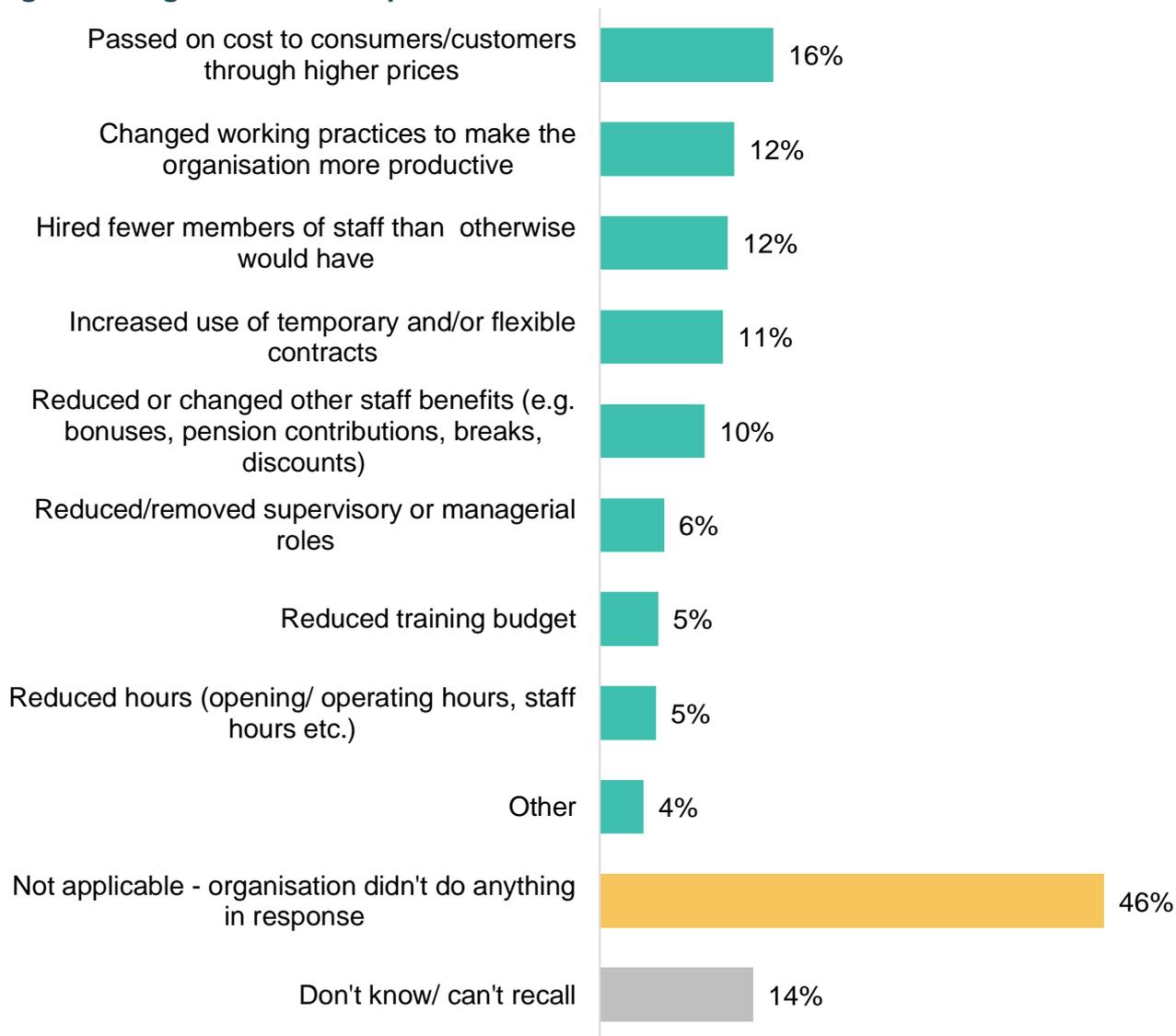
In this section, we explore how employers in the UK have responded to past minimum wage increases and the introduction of the NLW in 2016. We also investigate how they might respond to the planned future increases to the NLW. Finally, we explore what support they might require from the government in order to manage these increases.

### Responses to the introduction of the NLW

As part of the polling, we asked businesses to think back to the introduction of the NLW in 2016, which represented a significant increase in the wage floor for workers aged 25 and over, and say how their organisation reacted at the time. The results in figure 6 show that:

- The most common reported response was not to do anything. Many of these organisations would not have had any workers below the level of the NLW.
- Among those that did react, the most common response was to **pass on costs to the consumer**, which was mentioned by one in six (16%) businesses.
- One in eight (12%) said they **changed their working practices to make the organisation more productive**.
- One in eight (12%) also reported that they **hired fewer members of staff**.
- A similar number (11%) of businesses reported an **increased use of temporary or flexible contracts**.

**Figure 6: Organisational responses to the introduction of the NLW**



The findings of the survey reflect existing literature, which shows that passing on the costs of a higher wage floor was the most common response – if any was made – by businesses (Dube, 2019). This was most notable within low pay industries (Resolution Foundation, 2016b). According to research conducted six months after the implementation of the NLW, 58% of businesses in low paying sectors reported increasing prices (Resolution Foundation, 2016a).

The findings of our survey also reflect survey data from the time which suggests that some employers who were impacted by the increase in the wage floor hired fewer workers. Resolution Foundation found that 18% of low paying employers used fewer staff, and an additional 9% used different kinds of staff including a reduction in new hires, increased prevalence of casual contract workers, and a reduction in hours (Resolution Foundation, 2016a). However, while some employers reported at the time and in our survey that they had responded by reducing staffing, overall employment continued to increase following

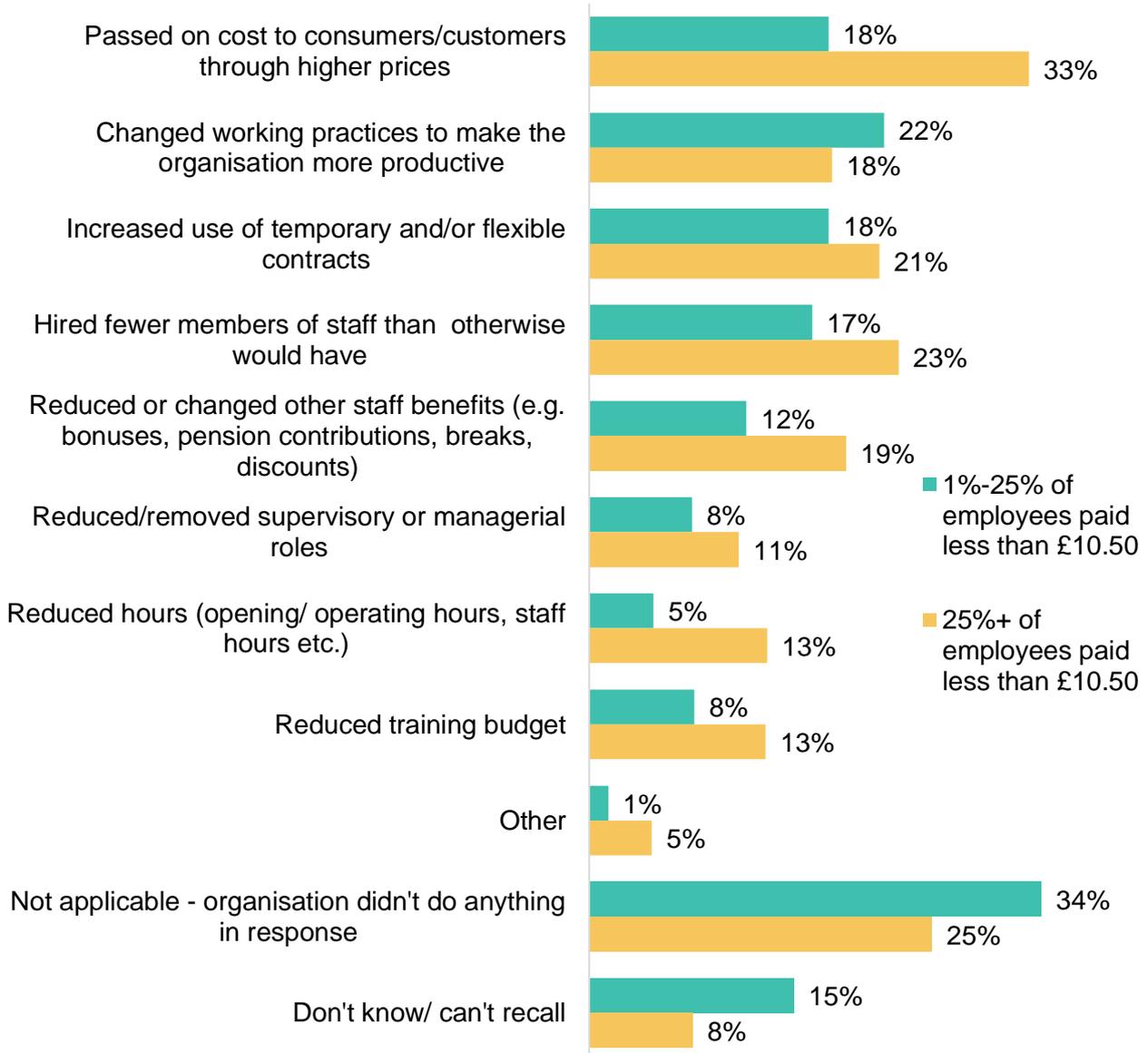
the introduction of the NLW, and recent research has suggested that the NLW did not seem to impact working hours overall (IES, 2019).

While some employers reported that they had responded to the introduction of the NLW by changing practices to make the organisation more productive, some evidence suggests these productivity increases have not been realised to the extent anticipated (Forth et al., 2020).

It is important to consider the reactions to the implementation of the NLW in 2016 by different types of employers. In our survey, hospitality and leisure businesses were the most likely to report having passed on costs (32%), while retail (19%) were more likely to have said they hired fewer members of staff than they otherwise would have.

Businesses with a higher proportion of lower paid workers were far more likely to say that they had to take action in response to the introduction of the NLW. As figure 7 shows, all actions were taken at a significantly higher rate by those who have a quarter or more of their employees currently paid below £10.50, with the exception of changing practices to make their organisation more productive. Only 25% of these businesses saying they didn't take any action, compared to 64% of those with no employees currently paid less than £10.50.

**Figure 7: Organisational responses to the introduction of the NLW, by employee pay**



Our interviews with sector bodies and industry leaders highlighted a few additional examples of reactions to wage increases, for example an increase in solo working in shops; work intensification through things like giving waiters more tables to cover; and other benefits being reduced.

*“2015 to 2020 I think we saw a mix of work intensification, restructuring of the remuneration, price increases and a bit of innovation, as how businesses met the challenge.”*

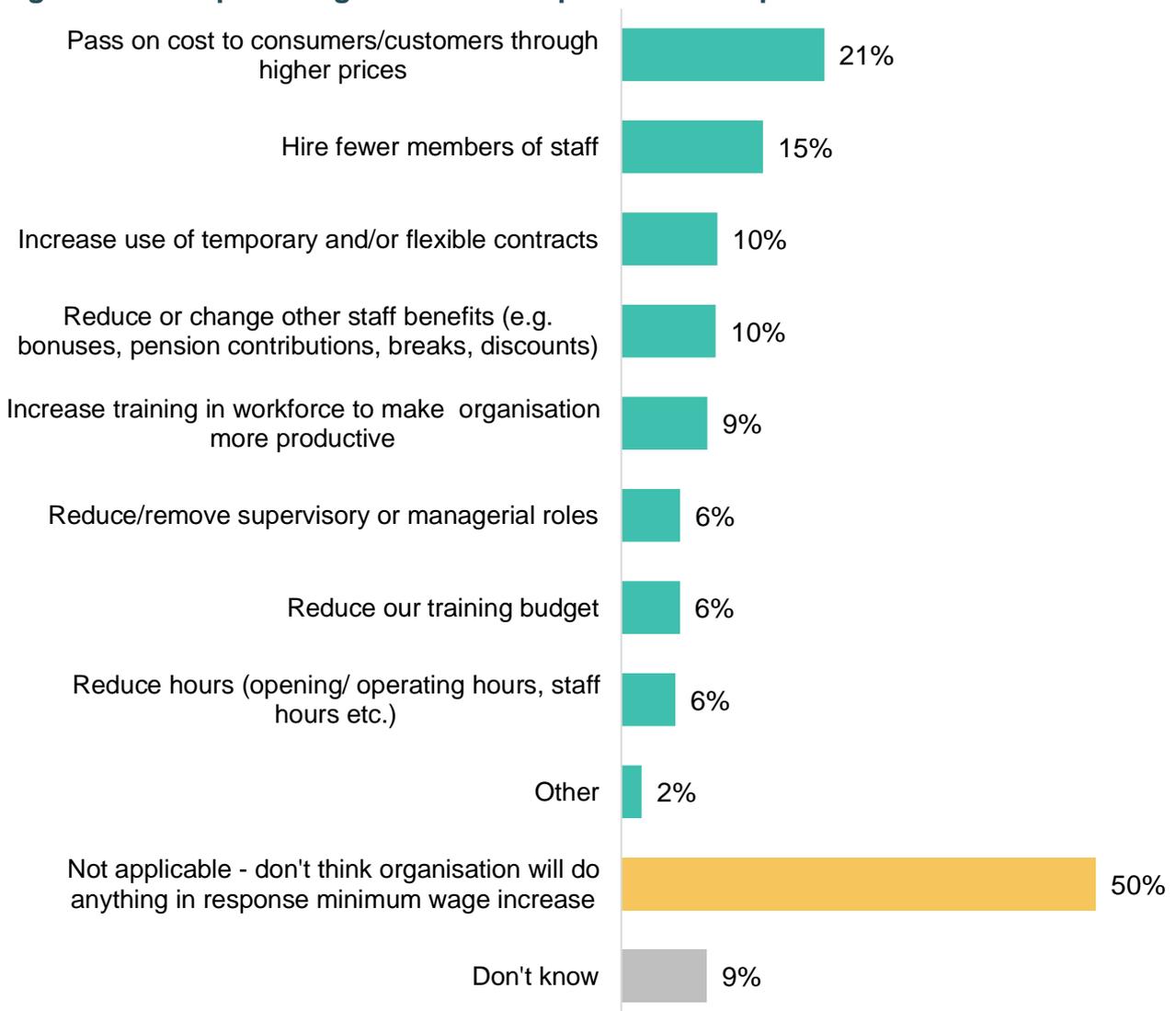
A representative of the retail sector reported that many in the sector have so far invested in technology to increase productivity as a method to mitigate against the financial impact of the NLW. However, they also reported that there have also been reductions in pay differentials and a reduction in layering of management grades and other cost-saving initiatives.

### Anticipated responses to increases to the wage floor

Having considered how employers have reacted in the past to the introduction of the NLW, in this section we examine the potential response to the planned increase in the NLW by 2024. Our survey asked how businesses anticipated their organisation would respond to the government's planned increase to the NLW. Figure 8 highlights their responses, showing that:

- **Half (50%) said they would not do anything**, representing a similar proportion of businesses who reported no response to the introduction of the NLW
- A fifth (21%) believe they will **pass the costs onto consumers**.
- 15% think they will **hire fewer members of staff**.

**Figure 8: Anticipated organisational responses to the planned increase to the NLW**

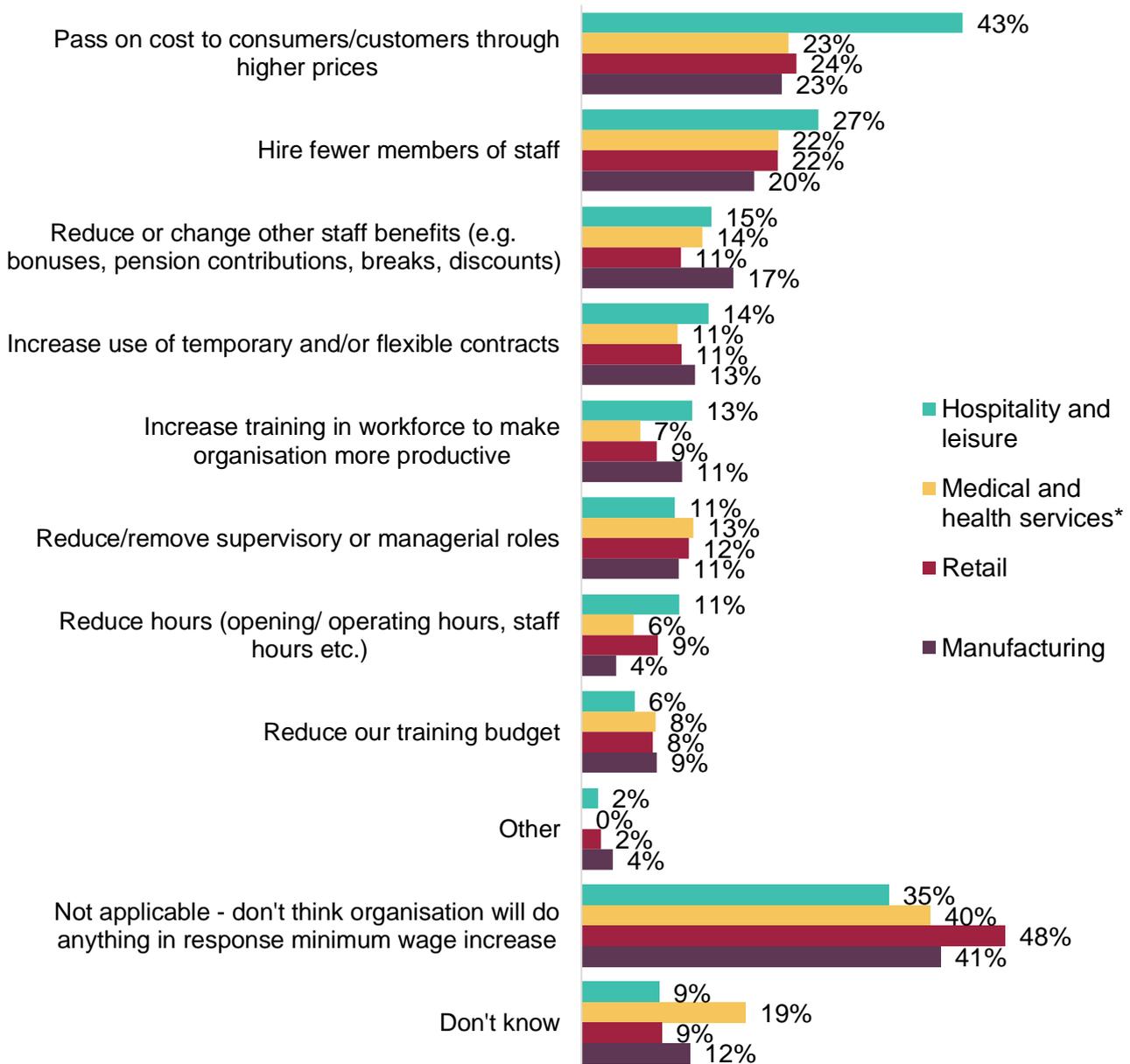


When looking at how businesses in different sectors said they would respond to the planned increases to the NLW, four stood out: hospitality and leisure, medical and health services, retail, and manufacturing. As figure 9 shows, they are more likely to respond in the following ways:

- Hospitality and leisure businesses are the most likely to report planning to take any action. Only one in three (35%) of hospitality and leisure businesses say they will not do anything in response to the increase in the NLW, compared to half (50%) of businesses across all sectors. Hospitality and leisure businesses are particularly more likely to pass on costs (43%) and hire fewer members of staff (27%).
- Businesses in medical and health services (13%) and retail (12%) are more likely to say they will reduce or remove managerial roles, compared to 6% on average.
- Manufacturing businesses are more likely to plan to reduce other staff benefits, such as bonuses, pensions or breaks (17%).

These findings are particularly concerning in light of the coronavirus crisis, as these sectors have been most hit.

**Figure 9: Comparison of anticipated reactions to NLW increase by key sectors**



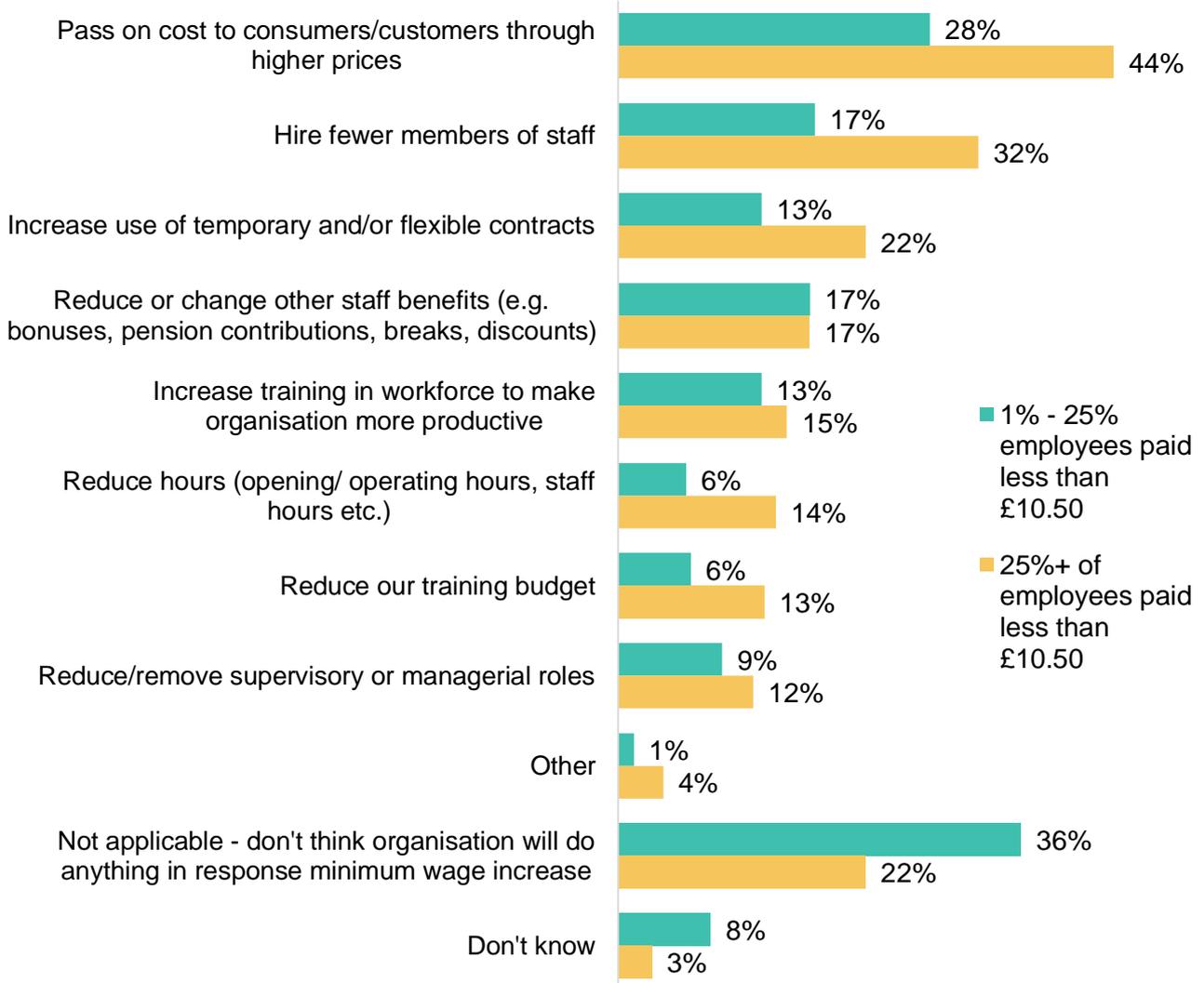
\*Note: Base size for medical and health services is 51, so treat results with caution

As we show in figure 10, businesses with a higher proportion of lower paid workers are far more likely to say that they will have to take action in response to the planned increase in the NLW. Just one in five (22%) of businesses with quarter or more of their workforce earning below £10.50 say that they will take no action in response to the increase in the NLW, compared to half (50%) of all businesses:

- More than four in ten (44%) say they would **pass on the cost to consumers through price hikes**;
- A third (32%) would **hire fewer members of staff**.
- Over a fifth (22%) would **increase their use of temporary or flexible contracts**.

- One in six (17%) would need to **reduce or change other staff benefits**.

**Figure 10: Comparison of anticipated reactions to NLW increase**



The high proportion of businesses in consumer sectors such as retail and hospitality saying they plan to pass on the costs of the planned increase in the minimum wage suggests that this will have an impact on consumers.

Comparing the responses to the introduction of the NLW to anticipated responses to further planned increases, we expect that a large proportion of businesses would not react to the NLW increase, instead taking on the costs themselves. The vast majority (81%) of those who did nothing at the introduction of the NLW believe they will also do nothing in reaction to the increases. Fewer than one in ten (8%) say they will pass on the cost to consumers, and a tiny minority (3%) believe they will reduce the number of staff they hire. However, it's possible that these intentions may have changed, or may change in the near future, as employers respond to a changing economic landscape caused by the coronavirus outbreak.

## Concerns about the future

An industry representative for the retail sector said that they understand the aspiration to increase the National Living Wage to reach two-thirds of median hourly earnings by 2024, but that have a strong preference for a longer flight path – a ten-year horizon rather than a four or five year one. Their main concern is that many in the sector have already taken the ‘high road’ options to mitigate the effects of previous minimum wage increases, such as investing in technology.

*“more of them have exhausted what we would consider to be the easier things to do... they’ve already been through quite extensive processes to simplify pay structures and management structures and all the rest of it. So, once you’ve got beyond that, you get into much harder territory, which is, do you start to look at reducing overall levels of employment? Do you look at total reward packages?... I do wonder if you accelerate this too fast, whether some of those hard decisions become ones which are further up the agenda.”*

In most of the interviews conducted with employer representatives, it was reported that the most recent increase in the minimum wage had been difficult to manage for many employers, focusing them to make harder choices, even before the coronavirus hit, and so the future plans look very difficult.

*“Well you either have to invest, which you may not have the capacity to do, in order to create new income lines or more productivity from the income lines you have, to allow you to meet the wages or you need to fundamentally restructure how you do your staffing, which is difficult, or you need to force through some price rises.”*

Another employer representative commented that they have found that the minimum wage has to be carefully worked out because whatever the wage is has consequences for how employers react. They discussed that a higher minimum wage is a perfectly reasonable goal, but that many employers report that certain levels leave them with fewer choices about what levers they can pull to offset a higher wage bill.

*“A lot of what I hear from employers is about what the offsetting decisions are that they then have to make and whether those offsetting decisions are comfortable or not.”*

Improved productivity is seen as essential by many employers in order to offset the increase in their wage bill associated with increases to the minimum wage (CIPD, 2020a). However, firms are often unable to meet their goals of increased productivity as they focus on short-term measures, such as intensifying work or not committing resources in longer term investments such as training (CIPD, 2020a). This combines to mean lagging productivity is likely to be a major stumbling block for the NMW and NLW going forward.

Another common concern expressed by employers about increases in the minimum wage is the impact on pay differentials. Following the introduction of the NMW, and the more

recent introduction of the NLW, many employers increased the pay of their lowest earning staff faster than that of staff slightly above the minimum wage. This can lead to wages becoming compressed, with staff in more senior roles earning only slightly higher salaries than those on the minimum wage). (Resolution Foundation, 2015; CIPD, 2020a; Resolution Foundation, 2019). The Dube review also warned that increasing the minimum wage at the scale suggested by the government would lead to an increase in the proportion of the workforce paid at or near the wage floor (Dube, 2019).

Indeed, in the first report in this project we found that many low paid workers had experience of the wage floor coming up to meet them, or it not being worthwhile to pursue a promotion because of the lack of a proper pay increase associated with the greater responsibility (L&W, 2020). There is further evidence that employers fear a reduction in staff morale amongst more senior employees, arguing that they are feeling demotivated to take on further responsibility because of the reduced gap between their wages and their subordinate employees (CIPD, 2020a). Our interviews with employment representatives also flagged this up, both from a perspective of compression of wages, and of one of fairness in the workplace for these more experienced members of staff.

A final point to emphasise is that some of the sectors most adversely affected by the Coronavirus outbreak, where large numbers of workers were furloughed on the UK Government's Coronavirus Jobs Retention Scheme, are those with high numbers of workers earning at or near the minimum wage. Retail and hospitality are two such sectors. 60% of hospitality workers, and 44% of non-food retail and wholesale trade workers were furloughed shortly after<sup>5</sup> the latest Minimum Wage uprating which took place in April. It has been pointed out to us, therefore, that many employers in this sector have not yet felt the adjustment of the 2020 Minimum Wage rates and are continuing to face operational uncertainties due to ongoing social distancing requirements. These two sectors accounted for, respectively, 11% and 15% of output falls<sup>6</sup> during lockdown. It is quite possible that output will not have returned to a sustainable equilibrium in those sectors by the time the next planned Minimum Wage uprating, scheduled to take place in April 2021, occurs. While the Minimum Wage rate is a flat rate, the impact of Coronavirus has been disproportionate on different sectors. It is possible those sectors most impacted by Coronavirus may require additional, or differently tailored, support to accommodate future Minimum Wage increases, or that the 'flight path' for future upratings may have to be adjusted in consideration of these particular pressures.

*"I think what's happened with the timing of this crisis is that it occurred around the same time as the national living wage increased and the introduction of the job*

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<sup>5</sup> Resolution Foundation analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19), cited in N Cominetti, L Gardiner & H Slaughter, *The Full Monty: Facing up to the challenge of the coronavirus labour market crisis*, Resolution Foundation, June 2020, <https://www.resolutionfoundation.org/publications/the-full-monty/>

<sup>6</sup> Ibid

*retention scheme. One aspect of the job retention scheme is that if you furloughed your staff, you don't see the hits on the 2020 living wage increase. So for many employers that have furloughed, they won't see the most recent increase in their budgeting until they take those staff off furlough. Now, we know that the furlough scheme will be in place in its current form up until the beginning of August, and at that point, it will change until the end of October. And we know that the Coronavirus has impacted different sectors differently. So there will be people who are coming off furlough now and going back to work but there'll be others in certain sectors such as hospitality, that's largely a low paid sector that are likely to stay on furlough for longer, so those employers may have a shorter period of paying staff at the 2020 rate. The [national] living wage doesn't have a sectoral difference, however, Coronavirus definitely does in terms of its impact. The Government aim of ending low pay should definitely still be on the table, but its implementation will need to be closely assessed in light of the impact of COVID-19."*

The different sectoral concerns are highlighted in recent research by CIPD, finding that freezing the NLW at its current rate in April 2021 is supported by 58% of businesses. It is a particularly popular policy idea for those in transport and storage (69%), manufacturing and construction (67%), administrative and support service activities (65%), and hospitality (64%) (CIPD, 2020b).

The issue of government support to employers in raising the wage floor is turned to in the next chapter.

## Government support and the role of policy

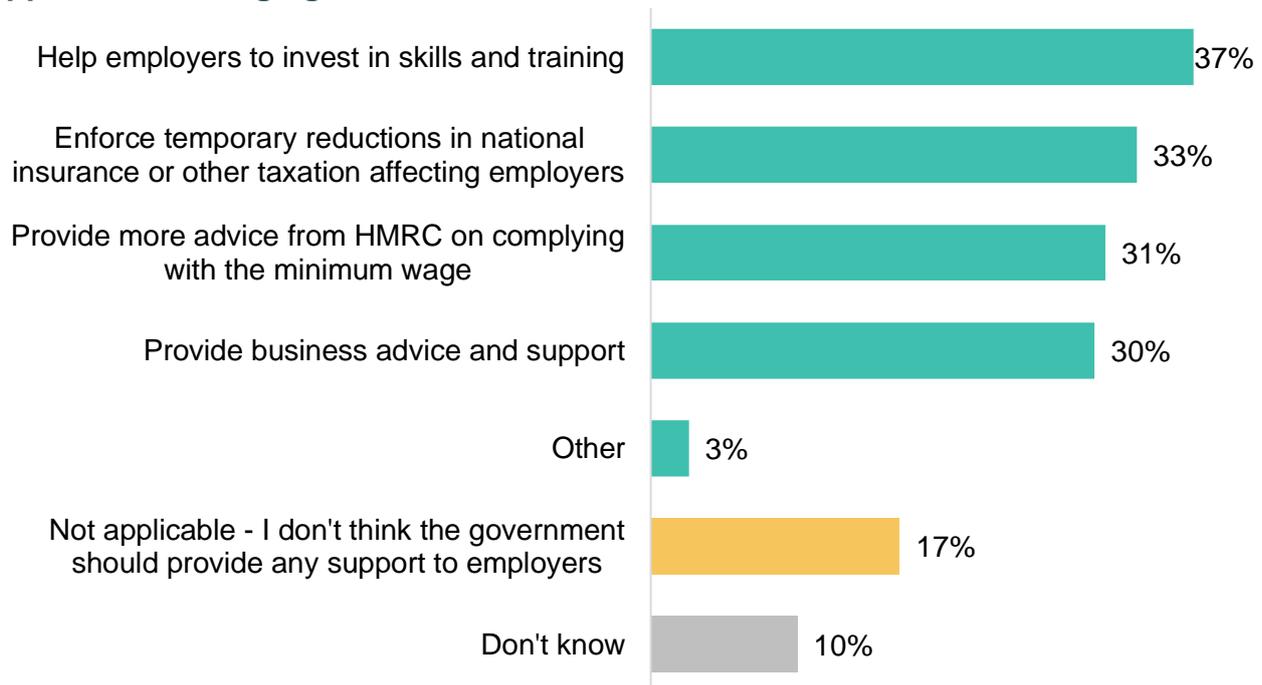
Having considered employer views of the planned increase in the minimum wage, and how they plan to respond, in this section we explore what support employers want from government to adapt and to manage the increase to the living wage. First we look at what direct support employers think should be provided, before we consider how minimum wage policy can fit into a broader agenda of improving job quality and tackling in-work poverty.

### Government support wanted

Our survey asked businesses what extra support they think government should provide to support with managing the increases to the NLW. The vast majority of businesses (73%) highlighted at least one area of support, with just one in six (17%) saying that they did not think government should provide any additional support to businesses. The findings are shown in figure 11:

- **Help in upskilling their workers** was the most popular measure with nearly two in five businesses (37%) highlighting the need for this;
- A third (33%) of businesses said that government should introduce **temporary reductions in national insurance** or other taxation affecting employers to support them to adapt;
- Three in ten said that government should provide more **advice on compliance with the minimum wage** (31%), with a similar number saying government should provide **business advice and support** (30%) to support employers in adapting;

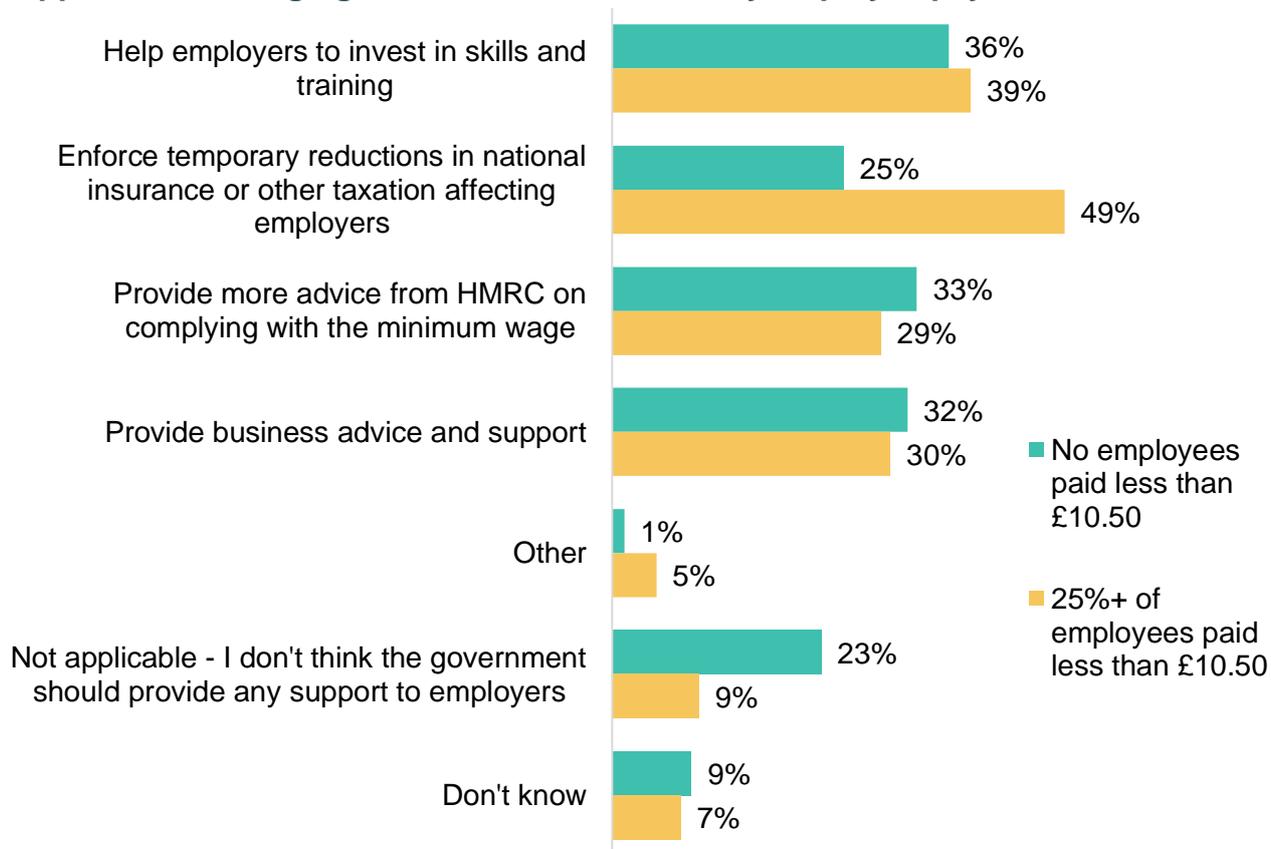
**Figure 11: Extra support businesses believe the government should provide to support with managing increases to the NLW**



As outlined in figure 12, calls for government support vary dependent on how impacted businesses will be by the increase to £10.50:

- Those who currently have over a quarter of their staff on less than £10.50 an hour are particularly supportive of national insurance or tax reductions, with 49% saying the government should implement this, compared to a quarter of those with no employees paid this rate.
- Only 9% of low-paying businesses think the government shouldn't do anything, compared to nearly a quarter (23%) of those with no employees earning less than £10.50 an hour.

**Figure 12: Extra support businesses believe the government should provide to support with managing increases to the NLW – by employee pay**



### Bringing the minimum wage into the good work agenda

When asked about what action government should take to support businesses with minimum wage increases, employer representatives said that interventions should sit in a broader agenda of good work, alongside requests to make the minimum wage increases over a longer flight path.

*“I think the first thing is bringing the minimum wage policy framework towards the good work but planned framework and starting to have the discussion about work in the round, and what the balance of good work looks like.”*

One example of a balance of pay and other aspects of good work provided was that in some sectors an employer might offer a higher rate of hourly pay than competitors; but other employers in the sector may have better terms and conditions, such as paid breaks and more staff covering a range of tasks, meaning that work intensity is less pressured. These are choices for employers to make about their offer, and choices too for employees about where they work. It is a reminder, however, to have the discussion about good work in the round, and not to focus exclusively on the pay component of work.

Our research also highlighted some concerning evidence that supports the need to consider the future of the minimum wage within the wider good work agenda. We found that 10% of all businesses, rising to 22% of those with over a quarter of their employees

currently earning less than £10.50 an hour, plan make greater use of precarious contracts (temporary or flexible) as a response to the increases to the NLW. In addition, 32% of businesses with a high proportion of low paid employees anticipate hiring fewer members of staff, which would likely lead to greater work intensification. A reduction of other staff benefits, such as bonuses, pension contributions, breaks or discounts, also seem likely in the face of NLW increases, with 17% of businesses with high levels of low pay reporting that they would take this action as a result. This indicates that while increasing the NLW will increase pay – which is vital to job quality – it is likely it will lead to risks for other elements of job quality.

## Conclusions

As we have shown, at the time when the coronavirus lockdown began in March, there was still relatively broad employer support for the government's plans to increase and extend the National Living Wage. Even among the businesses that might be most impacted by the change – where a high proportion of staff earn below £10.55 – a majority backed the planned increase.

Anticipated responses to the planned increase in the NLW mirror employer responses to the initial introduction of the NLW. The most commonly cited expected responses include passing on the cost to customers and changing working practices to boost productivity. While some employers suggest they may respond by hiring fewer members of staff, there is little evidence to suggest that the previous introduction of and increase to the NLW led to a significant negative impact on employment.

While there is evidence that previous increases in the wage floor have been achieved without costing jobs, these have been introduced when economic conditions have been relatively benign. With the UK now entering a sharp recession precipitated by the COVID-19 crisis, and the uncertainty posed by the end of the Brexit transition period ahead, there is limited evidence to understand whether significant further increases could be achieved without costing jobs. There are also specific sectoral challenges to be considered in the future of minimum wage policy. The current recession is driven by certain sectors and the challenges of socially distancing in these contexts. As we have outlined many of these sectors are also the most likely to have low paid workers. It will be necessary to work closely with businesses and sector bodies to understand and support their capacity to handle increases, though this is not the only consideration with minimum wage increases. It is also important to consider the cost of living, and the impact of the level of the minimum wage on low paid workers. As we found in the first report in this series, those earning on or near the wage floor are struggling and there is strong support among this group, and the wider public, for a higher minimum wage.

If the government does proceed with its plan to increase and extend the NLW, most businesses believe that help should be put in place to support those affected to adapt. Here, support to upskill the workforce in order to boost productivity and temporary reductions to National Insurance Contributions are the most commonly cited measures. Support for such measures is particularly strong amongst the employers who are most likely to be impacted by the increase in the wage floor; those which have a higher proportion of workers on low pay. These sectors have also been the worst hit by the impact of coronavirus and lockdown, so this could be more important than ever.

In light of the existing evidence, coupled with the huge impact of coronavirus on certain industries and the uncertain future of post-Brexit Britain, decisions around future NLW and NMW increases will need to be taken extremely carefully. While the government's 2024

target may well still be achievable and important to support household incomes in the Coronavirus recession, increases in the wage floor must be balanced against the risk of adding to unemployment, and these increases should be matched by support for businesses to adapt. It is still vital, however, to consider the broader picture of the minimum wage, including the needs of those working at the wage floor.

In our final report, out later in 2020, we will bring together all the evidence collected from workers and employers, along with new economic analysis, to set out recommendations for the future of the minimum wage. We will explore the extent to which the minimum wage could boost incomes for low paid workers, and we will set out how increasing the wage floor could form part of a wider strategy to improve job quality and reduce in work poverty.

## Appendix 1 – Methodology

The future of the minimum wage project is using a mixed-method approach. The fieldwork for the second report was carried out during the coronavirus outbreak in the UK.

The fieldwork included:

### Quantitative fieldwork

The quantitative survey was an online survey of 1,002 GB adults with senior responsibility within their organisation, run by YouGov between the 17<sup>th</sup> – 23<sup>rd</sup> March 2020. Data was weighted to be representative of British business size. All results are from YouGov unless otherwise stated.

### Qualitative fieldwork

A small number of interviews were conducted with industry bodies or representatives in low paying sectors. These include care, retail and agencies.

We would like to thank everyone who fed into the research, in particular those who gave up their time to take part in an interview.

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