

necessary research, consultation and analysis. And businesses and workers need adequate notice of changes to ensure effective communication and implementation. We have therefore recommended that the minimum wage should be reviewed regularly taking account of research and data on its impact, consultation, and analysis of a comprehensive range of factors. These reviews should take place every two years, with the Commission reporting in February for implementation of any changes the following October.

- 7.11 We have made significant use of short-term research in our reports to date, but at this stage in the development of the minimum wage we consider it necessary to be able to make longer-term plans. As we said in our second report, it will be several years before we can make a full assessment of the impact of the minimum wage. Even though we have recommended biennial reviews and reports, continuous research and monitoring is necessary to support such regular reviews. We need to track the impact of the minimum wage on the whole economy, low-paying sectors, young people, training and vulnerable groups, and compare developments over the longer term.
- 7.12 The Government has said that it will now make the Low Pay Commission a permanent body. We welcome this. The work of the Commission would be enhanced if it were given standing terms of reference that would enable a strategic, longer-term programme of research to be established. We do not propose that the Commission should report as a matter of routine between reviews, although we recognise that the Government may, as it has done in the past, ask us to conduct special reviews if the need arises.
- 7.13 In this volume we have addressed a range of sometimes complex and often challenging issues that have an impact on business competitiveness and workers' incomes. But we have kept our recommendations simple and straightforward. Once again there is a unanimous view that the Commission's recommendations are bold enough to make a difference, but prudent enough not to have an adverse effect on employment or the economy.

**A surprising consensus has now emerged, with government, business, unions and academics all sharing the view that there has been no significant adverse impact resulting from the statutory wage floor... . Almost eight in 10 firms ... back the principle of a statutory wage floor. Just 4% oppose the idea.**

*Pay and Benefits Bulletin*, Industrial Relations Services, March 2001

7.14 This second volume completes our third report, a coherent package of analysis and recommendations on the next steps for the development of the National Minimum Wage. Its introduction has been a historic labour market intervention and it has now been widely accepted, even by many who initially opposed it. The co-operation between employers and workers, and their representatives, in making a success of the minimum wage should not be underestimated. In doing so, they have made a reality out of a commitment to partnership. We are confident that this positive and enlightened approach will help ensure the continuing effectiveness of the minimum wage, both in the immediate future and in the longer term.

# Appendix 2: Impact on Groups and Sectors

1. In Volume 1 of this report we gave our assessment of the impact of the National Minimum Wage. We described the impact on the economy as a whole and on different groups of employees and business sectors. In this appendix we set out in more detail our analysis of these groups and sectors and how they have been affected by the minimum wage. We begin by considering three broad groups of employees: women, disabled people and ethnic minorities. We then consider seven business sectors where low pay is common: retail, hospitality, business services, social care, childcare, textiles and clothing, and hairdressing.
2. The earnings data presented for women are based on the Office for National Statistics (ONS) central estimate methodology. The earnings data presented for ethnic minority and disabled employees are based only on the Labour Force Survey (LFS), and are an upper bound since this survey overstates the number of low-paid employees. The earnings data for low-paying sectors are based only on the New Earnings Survey (NES), and are a lower bound since this survey understates the number of low-paid employees. These estimates are therefore not directly comparable with the ONS central estimate methodology. The median and lowest decile hourly earnings reported for the low-paying sectors are based on grossed NES data.

## Women

### Beneficiaries

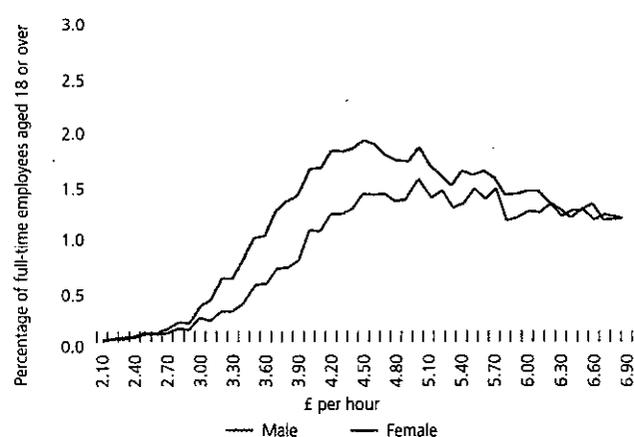
3. Differences in employment patterns mean that women are more likely to benefit from the National Minimum Wage than men. As we reported in Volume 1, around 70 per cent of beneficiaries are women, the majority of whom are working part time.

## Earnings

4. The impact of the minimum wage on full-time earnings for men and women can be seen from Figures A2.1 and A2.2. Figure A2.1 shows the high concentration of women among low-paid full-time employees. In 1998 there was a higher proportion of female than male earners in each earnings band up to around £6.00 per hour. The impact of the minimum wage has consequently been greater for women. As can be seen from Figure A2.2, after the minimum wage was introduced, spikes developed at around £3.60, £4.00 and £5.00 per hour, which were more pronounced for women than for men.

Figure A2.1

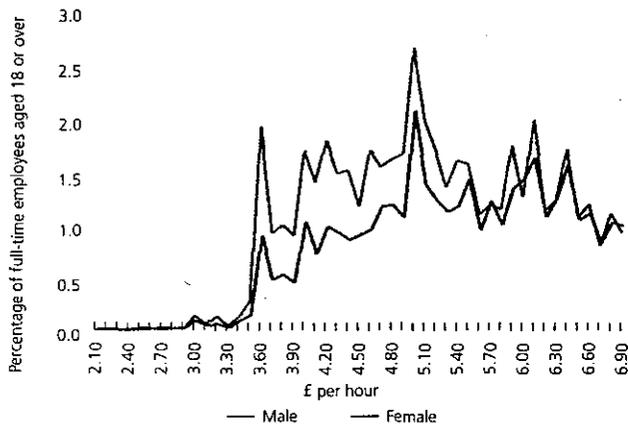
Hourly Earnings Distribution for Full-time Employees Aged 18 or Over, 1998



Source: LPC Calculations, Grossed NES and LFS data

**Figure A2.2**

**Hourly Earnings Distribution for Full-time Employees Aged 18 or Over, 2000**



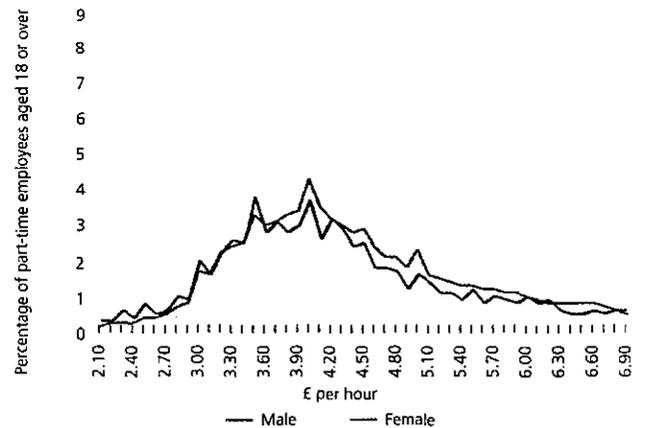
Source: LPC Calculations, Grossed NES and LFS data

5. The distribution of part-time employees' earnings changed after the minimum wage was introduced. Figure A2.3 shows that in 1998 the distribution was relatively smooth with small spikes at around £3.50, £4.00 and £5.00 per hour. As Figure A2.4 shows these became more marked at around £3.60, £4.00 and £5.00 per hour after the minimum wage was introduced. There is little difference between the earnings of male and female part-time employees before and after the introduction of the minimum wage. This is because, compared with women, a much higher proportion of male part-time employees are younger and they have lower earnings. In Spring 2000 about a quarter of all male part-time employees were aged 18–21 compared with less than a tenth of female part-time employees.

6. The impact of the National Minimum Wage has been greater for part-time than for full-time employees. This is true for both men and women and is due to the much higher proportion of part-time employees who are low-paid. In Spring 1998 19 per cent of male part-timers and 15 per cent of female part-timers earned less than £3.50 per hour. This compares with 3 per cent and 4 per cent of their full-time counterparts. The minimum wage has narrowed the gender pay gap, particularly that between female part-time employees and male full-time employees. Indeed, the Equal Pay Task Force report *Just Pay* (February 2001) pointed out that 'although the National Minimum Wage has been in effect for only a relatively short period of time, there is already evidence of its potential to reduce the gender pay gap at lower wage levels and in relation to part-time workers'.

**Figure A2.3**

**Hourly Earnings Distribution for Part-time Employees Aged 18 or Over, 1998**

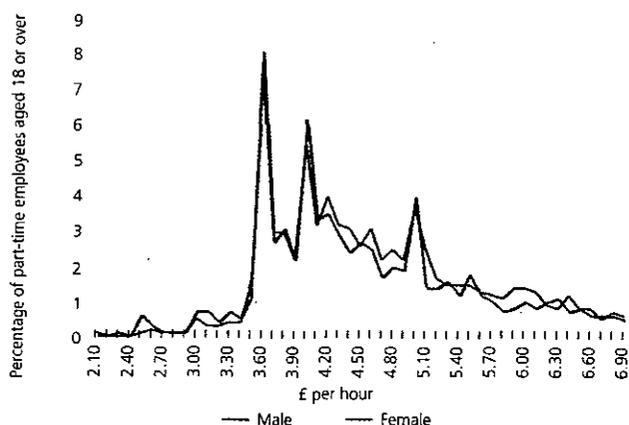


Source: LPC Calculations, Grossed NES and LFS data

Note: Sample sizes are smaller for male part-time employees than for other groups.

**Figure A2.4**

Hourly Earnings Distribution for Part-time Employees Aged 18 or Over, 2000



Source: LPC Calculations, Grossed NES and LFS data

Note: Sample sizes are smaller for male part-time employees than for other groups.

## Employment and Non-employment

7. In the year since the minimum wage was introduced, the labour market performance of women has continued to improve. The female employment rate rose by 0.6 percentage points, only marginally less than that of men, and the female ILO unemployment rate fell by 0.3 percentage points.
8. The employment patterns of men and women are different. As mentioned earlier, a much larger proportion of women than men work part time: around 43 per cent compared with just 7 per cent. Women are also more concentrated in the low-paying sectors. They account for around 60 per cent of employees in the low-paying sectors described later in this appendix, but they comprise around 50 per cent of all employees.
9. Women's levels and rates of economic activity show a continuing upward trend post-minimum wage. In the year after the minimum wage was introduced, the inactivity rate for working-age

women fell by 0.4 percentage points, about twice as much as for men. Reductions were particularly marked among younger women (aged under 24), those looking after the family or home, and inactive students. Some of these effects are part of longer-term trends, but the minimum wage almost certainly contributed to this positive labour supply response.

## Disabled People Beneficiaries

10. In Volume 1 of this report we noted that disabled employees – those with a work-limiting disability – are generally more likely to be lower-paid than non-disabled employees. LFS data suggest that around 136,000 disabled employees stood to benefit from the introduction of the minimum wage. As this number is based solely on LFS data it is an upper bound estimate.

## Earnings

11. Figure A2.5 shows that pre-minimum wage there was a higher proportion of disabled than non-disabled employees towards the bottom of the earnings distribution, particularly up to around £5.00 per hour. Proportionately more disabled people therefore stood to benefit from the minimum wage. As Figure A2.6 shows, post-minimum wage there has been a clear shift to the right of the earnings distributions. There is a significant spike at £3.60 per hour, with a higher proportion of disabled than non-disabled employees paid at the minimum wage. Further spikes are also clear at around £4.00 and £5.00 per hour. This is consistent with findings from Incomes Data Services Ltd. (IDS, 2000a) that the minimum wage, together with a tight labour market, is creating a 'mezzanine' level effect which is forcing firms to pay more than the minimum to stay ahead of the competition.

## Appendix 4: Low Pay Commission Research Projects

1. As mentioned in the first volume of this report, we based our recommendations on extensive research and consultation. We commissioned 21 research projects and undertook our own survey of firms in low-paying sectors. We have described the findings of our own survey in Appendix 2 to Volume 1 and in Appendix 5 to this volume. In this appendix we describe the research projects which we commissioned, and their main findings.
2. The research covered:
  - the impact of the minimum wage on businesses including small businesses and certain sectors: for example, the effect of the upratings, impacts on pay differentials, employment, recruitment and training;
  - the impact on particular groups such as disabled people, ethnic minorities, homeworkers, women and young people;
  - the impact of the minimum wage upon poverty; and
  - compliance and enforcement.
3. We had a research budget of £250,000. We publicised our requirements on our own Internet website, in the British Universities' Industrial Relations Association (BUIRA) Newsletter (*Industrial Relations Research Mailbase*, 12/4/2000) and among researchers and academics who had previously expressed interest in our work. An article in *Labour Market Trends* (December 2000) described the Commission's strategy for monitoring and evaluating the National Minimum Wage.
4. An independent chairman from the Department of Trade and Industry assisted us in assessing the bids. We ranked the bids according to their relevance to our terms of reference, our judgment about the potential effectiveness of their methodology, and their value for money. We commissioned 21 projects.
5. These projects used a variety of research methods, including face-to-face interviews and discussion groups, and postal and telephone surveys of individuals and firms. We also commissioned econometric modelling to estimate individual-level employment effects and microsimulation modelling to estimate the effect of the minimum wage on poverty.
6. Projects were undertaken by specialist research organisations, individual professional researchers, academics and those with a professional interest in the group they were examining, such as the National Group on Homeworking. This research complemented the oral and written evidence and our other work. We gained valuable insights and supporting evidence. Brief descriptions of the projects including the main findings are shown in Table A4.
7. The data available to researchers and their quality both continue to accumulate and improve. But the full effect of the minimum wage will be captured only in the longer term. Key sources of information that we need to continue to monitor are the longitudinal Labour Force Survey, the British Household Panel Survey (BHPS) and the New Earnings Survey Panel Dataset. In our first two reports we highlighted the need for longer-term research and analysis of the impact of the minimum wage on the labour market. Now that the Government has confirmed that the Commission is a permanent body, we look forward to starting soon the process of putting in place a longer-term strategic approach to research on the minimum wage.

Table A4

Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
D. Adam-Smith, G. Norris and S. Williams (University of Portsmouth Business School)	To investigate the impact of the National Minimum Wage on the hospitality industry in the Portsmouth area.	24 semi-structured interviews with managers or proprietors and 21 semi-structured interviews with workers (covering current and recent experience of 42 jobs)	The introduction of the minimum wage had little impact on the industry in Portsmouth. Few establishments have been required to increase wage rates as a direct result and even fewer adversely affected. No direct evidence exists of reduction in either staffing levels or employee benefits. Some acceptance by employers of the part that training can play in making businesses profitable.
A. Bullock, A. Hughes and F. Wilkinson (ESRC Centre for Business Research, University of Cambridge)	To assess the impact of the minimum wage on small and medium-sized enterprises.	Postal questionnaire (254 responses) of small and medium-sized businesses, in the cleaning and security industry, with comparisons drawn against the 1999 survey.	The main impact of the minimum wage was found to be on increased prices and reduced profits, but there was a range of other impacts. Firms responded by increasing wages to restore differentials; raising efficiency by increasing control of both labour and non-labour costs; reducing employment and hours worked and increased training. On balance firms reported an increase in labour turnover.  Some firms responded by attempting to improve their competitive strategy. Firms put increasing emphasis on price, personal attention to clients' needs, quality and reliance on established reputation. Greater emphasis was also placed on speed of service and specialisation.

Table A4

## Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
F. Colgon, M. Davis and S. Jefferys (University of North London)	To identify and assess the impact of the National Minimum Wage on ethnic minority workers in North London.	Interviews with 225 employees and 129 employers/managers of commercial premises in the North London area. In-depth interviews with representatives of 12 community organisations.	<p>Awareness of the minimum wage was found to be high with two-thirds of employees and four-fifths of employers having heard of it. But only one in four of the employers and one in five of the employees knew the correct rate. 29% of employees interviewed stated that they were working 'off the books'.</p> <p>The introduction of the National Minimum Wage and its enhancement in 2000 made little impact, largely because wages tended to be above the minimum wage level. 5.2% of employees who had heard of the minimum wage received a pay rise as a result of its introduction.</p>
G. Cox (Greater Manchester Low Pay Unit)	To analyse the rates of pay available to younger workers, and to study the way in which the minimum wage has had an impact on the youth labour market.	Analysis of Jobcentre and Careers Services data on vacancies. A short questionnaire to Careers Services about their experience of the introduction of the minimum wage. Interviews with small groups of young people about their understanding of the minimum wage and their own experiences of it.	<p>Many jobs for 16 and 17 year olds already pay levels equivalent to or above the minimum wage rates either for 18-21 year olds or for 22 year olds. At the same time some are paying very low rates of pay. The use of age-related rates in jobs advertised in Jobcentres is small, and concentrated in few occupational sectors.</p> <p>Most Careers Services said that the number of vacancies had generally remained unchanged since the introduction of the minimum wage. In general, jobs that offer formal training offer lower rates of pay than jobs which offer 'in-house' or 'on-the-job' training.</p> <p>Many of the young people questioned were aware of the National Minimum Wage, but not its detailed aspects.</p>

Table A4

## Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
T. Dignan (Equality Commission for Northern Ireland)	To examine the impact in Northern Ireland of the National Minimum Wage on the employment patterns of men and women.	Firms in low-paying sectors were selected for interview – 112 had preliminary interviews and 30 of these full interviews. Data were collected from appropriate organisations, and focus groups convened to discuss issues.	Most firms (73%) said the introduction of the minimum wage had minor or no implications for their pay structures. The majority of employees in firms affected by the minimum wage were women. No significant negative impact to date on equality of opportunity due to adjustments to jobs or hours, or the secondary employment impact of adjustments via prices and profits.
J. Heyes and A. Gray (Leeds University Business School)	To examine the impact of the National Minimum Wage on the pay, recruitment and training practices of small firms, with particular regard to younger workers.	A questionnaire survey of small firms (258 responses) and 12 case studies.	The minimum wage resulted in pay increases in more than half of responding firms. The three most common means of offsetting labour costs were increasing prices, reducing working hours and improving product or service quality. The minimum wage appears to have stimulated an increase in training activity. In a large majority of cases the pay and training received by workers aged 21 were more in line with that of older workers than younger workers. A small minority of employers sought to employ more 16 and 17 year olds as a result of their exemption.

Table A4

## Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
M. Hudson (University of Cambridge)	To examine the impact of the minimum wage on disabled people and therapeutic activity, looking particularly at the definition of work and interaction with the benefits system.	Case studies of a variety of employment projects, 8 day-centre based projects and 7 non-day-centre based projects. A total of 49 interviews, predominantly in Newham and Salford.	For the most part employment projects have not seen an adverse impact on opportunities for therapeutic activity or supported employment, but the parameters of that activity were being curtailed as projects tried to stay within the benefits and minimum wage rules. There were real concerns about moving into employment and losing benefit entitlement. Increased flexibility would provide a greater degree of opportunity, choice and independence for disabled people.
Incomes Data Services Ltd.	To gather information on, and examine the issues in, minimum wage applications to employment tribunals.	Information was analysed from 44 published decisions of employment tribunals, out of around 300 cases related to the minimum wage which have gone to a tribunal hearing. The cases were selected for raising specific legal or factual issues.	The cases examined raised various issues including training, travel time, allowances, detriment and dismissal. In the sample two-thirds of applicants were women and only a minority still worked for the same employer when the claim was brought. Workers were more successful in non-payment claims than in dismissal claims. The average hourly rate which workers stated they were earning was £2.28.

Table A4

## Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
Incomes Data Services Ltd	To monitor the effects of the minimum wage, in particular to assess the impact of the June increase for young people and of the increase in the main rate in October 2000. To focus on key developments in lower-paying sectors, young people and the public sector.	IDS contacted a large number of organisations in a variety of industries, using questionnaires, telephone and face-to-face interviews. The first report included data collected up to October 2000. A second report included data collected up to February 2001.	An overview of the key rates of pay in low-paying sectors was provided as well as focusing on the minimum wage effect on differentials, young people, staffing levels and recruitment and retention. A key theme that emerged was that the minimum wage and the tight labour market were causing upward pressure on pay, which was sometimes offset by increases in productivity or changes in work practices. Consequently many firms had moved away from the bottom end of pay and towards £4.00 – the 'mezzanine' floor. No significant negative employment effects were detected, and the impact on differentials was limited. IDS found that the use of the Development Rate for young people was low and had been discontinued in many pub chains. There was a trend towards adult rates of pay starting at 18. The minimum wage had little impact on the public sector, with most pay rates above the minimum at the time of introduction.
B. Blyth (Leicester City Council)	To investigate the impact of the National Minimum Wage on workers from ethnic minorities, including awareness of their rights, non-compliance and the informal economy.	Interviews were conducted with 54 ethnic minority workers paid at or below the minimum wage in the Belgrave area of Leicester.	30 workers out of 54 were paid on average below the minimum wage. Wages as low as £1.60 per hour were found and none of the pieceworkers appeared to receive the minimum wage. Awareness of the rate of the minimum wage was high, at 70%, but there was a lack of awareness of how to complain. There was a real fear among workers that if they complained they would lose their jobs. There were examples of the informal economy in operation – in some cases the workers involved were content to collude but in others they were not.

Table A4

## Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
R. Lucas and M. Langlois (Manchester Metropolitan University)	To examine the impact of the National Minimum Wage on students in work (mostly in the Greater Manchester area)	Survey (368 respondents) and follow-up interviews (42) of students in university, further education colleges and schools	Most 18-21 year olds were paid well above the current Development Rate. The minimum wage has not affected the number of jobs available to students and there is no evidence that employers or students have adjusted working hours in response to it. Many students had little awareness of the minimum wage beyond knowledge of the rates.
S. Sekharan and R. Lucas (Manchester Metropolitan University)	To compare the impact of the National Minimum Wage on treatment of young workers in hospitality firms in North Wales and North Manchester.	A postal questionnaire (29 respondents) and follow-up telephone interviews (7)	The minimum wage has had little impact on the employment practices and training of 29 hospitality firms in North Wales and North Manchester, and has not led to the substitution of young workers for older workers. Where employers pay lower rates to young people it is usually because of their perceived lower responsibilities, reliability, experience and skills, rather than age alone.
R. Dunstan and M. Tarpey (National Association of Citizens Advice Bureaux (NACAB))	To examine the scale and nature of National Minimum Wage-related inquiries to the CAB Service; the characteristics and experiences of CAB users in relation to the minimum wage; and the issues raised by CAB users regarding compliance with and enforcement of the minimum wage.	A representative random sample of 64 CABs conducted a 3-month monitoring exercise of all minimum wage-related queries (120 in all). This was supplemented by the views and experiences of the centre managers or employment rights advisers.	There has been a decline in the number of minimum wage-related inquiries made to the CAB Service nationally from an estimated 50,000 in April-December 1999 to an estimated 5,000 inquiries per year by late 2000, many fewer than for some other employment issues. In terms of the advice work of CABs, the minimum wage appeared to have settled down since 1999, with non-compliance largely confined to particular, low-wage areas. Nevertheless there continued to be some lack of awareness of entitlement and enforcement methods.