THE ECONOMY 2030 INQUIRY
SHAPING A DECADE OF CHANGE

Low Pay Britain 2023

Improving low-paid work through higher minimum standards

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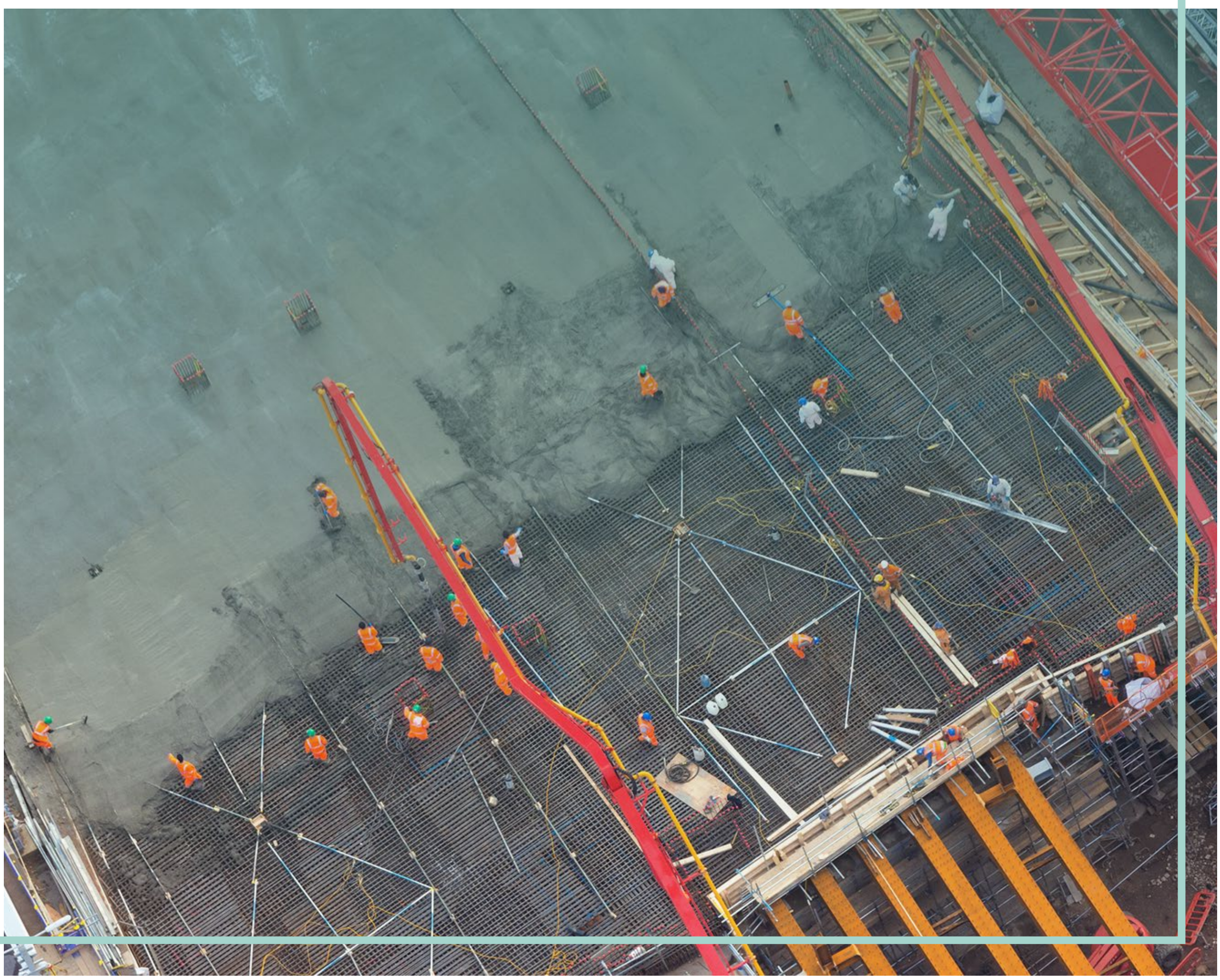
April 2023



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The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

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Executive Summary

After a decade and a half of relative economic decline, Britain needs a new economic strategy. And good work must be at its heart – an explicit goal, not a hoped-for by-product of growth. This is a necessary precondition for a strategy that offers a credible promise of shared prosperity in the years ahead, strengthening not just our economy but our society and democracy too.

Why is good work so important? Because at the moment too many lower earners do not have it. Their job satisfaction has fallen (in stark contrast to higher earners), even as the minimum wage has risen. Too often they are not treated with dignity and respect, with little or no protection from unexpected changes to the shifts they work and the wages they take home. And they lack many of the things that higher earners take for granted: the lack of adequate sick pay, for example, means illness is bad for the financial, as well as physical, health of low-paid workers in a way most higher earners never experience.

This paper considers what it would mean to put good work centre stage. It requires us to go far beyond the narrow focus this century on a higher minimum wage, because although pay is crucial it is far from all that matters. It necessitates a radically different approach to the trade-offs that are inherent if real progress is to be made: better jobs for some will mean higher prices for others. And good work must be seen as part of a route to achieving wider economic policy objectives – an integral part of an economic strategy that engages with what the UK produces and consumes, alongside who benefits from it doing so.

This Low Pay Britain report is the 13th in an annual series, where we take stock of the state of low-paid work. This edition also forms part of our Economy 2030 Inquiry, which seeks to set out what a plausible economic strategy that tackles the UK's twin problems of high inequality and low growth might be. It is an argument for putting good work centre stage, and a policy agenda for doing so.

Too many low-paying jobs do not offer good work, and job satisfaction among low earners has fallen

Work means very different things to lower and higher earners: not enough of the former enjoy the basics of dignity, respect and security that the latter take for granted.

There is no single thing that makes a job 'good' or 'bad', but we can confidently list as 'good' qualities like security, autonomy, having a voice in the workplace, and opportunities for progression. Volatile pay, intense work, or a lack of certainty over when you work are 'bad'. These aspects of job quality are distributed very unequally. Workers with hourly pay in the bottom quintile of the distribution are more than twice as likely as workers in the highest paid quintile (38 per cent compared to 15 per cent) to say they have little or no autonomy at work; four times as likely to experience volatility in their hours and pay (22 per cent compared to 6 per cent); and four times as likely to be working fewer hours than they would like (17 per cent compared to 4 per cent).

There are also some less obvious ways in which work is harder for those on low pay. Many in well-paid jobs take for granted the everyday flexibility to be able to take time off to deal with an emergency at home. But that isn't possible in many low-paid jobs. In a new survey of 2,000 private-sector employees, more than half (56 per cent) of those earning less than £20,000 per year said that if they had to miss work for a day due to a family emergency then they wouldn't be paid – five times the rate among workers earning above £60,000 (12 per cent).

Some of these differences are hard to eliminate, but their breadth and scale are far harder to justify. Despite a rising minimum wage, job satisfaction among the lowest-paid workers has fallen in the past three decades, while it has been stable for the highest earners. Thirty years ago, low-paid workers enjoyed a significant job satisfaction premium (of 16 percentage points) over higher-paid workers, which has now disappeared, as low-paid work has become more stressful and intense.

Minimum standards in the UK often lag other rich countries

The minimum standards different countries set in their labour markets matter greatly for the lived experience of work, particularly for lower earners. While many things in the workplace are hard to regulate (like the autonomy workers have over specific tasks), which is why broader questions about worker power are central to a good work agenda, there are many important areas where universal minimum standards can make a difference. Pay is the most obvious of these (i.e. the minimum wage), but other areas include sick pay, protection against hours insecurity, and also some less obvious areas like parental pay and minimum holiday entitlements.

While legal minimums in these areas are generally universal in the UK, it is mainly low earners who would benefit from raising them. Higher earners tend to be offered occupational entitlements far exceeding the statutory minimum. For example, more than half (56 per cent) of private-sector employees earning below £20,000 expect to receive only statutory sick pay (SSP) or nothing at all if they have to take a week off work through illness, compared to around a tenth of those earning above £50,000. Those earning less than £123 per week (1.6 million workers) are ineligible for any statutory sick pay at all. Similarly, two-thirds (65 per cent) of female workers under the age of 45 earning below £20,000 expect to either receive only statutory maternity pay or not be paid at all if they took a nine-month period of maternity leave, compared to three-in-ten (28 per cent) of those with an income over £40,000 (the rest of whom would expect to benefit from a more generous occupational maternity pay scheme).

This divergence between the experiences of higher and lower earners in part simply reflects how low the UK's minimum labour market standards often are compared to those set in similar economies. SSP in the UK is just £109.40 per week. This is already low, but combined with the three-day waiting period policy (i.e. SSP provides nothing for the first three days), a worker off sick for a week would get just £43.76 - just 11 per cent of the wage someone working full-time on the minimum wage would earn (£390). The replacement rate of equivalent schemes in other countries is significantly higher: across the OECD, the median replacement rate of mandatory sickness benefit (i.e. statutory sick pay or its equivalent) for a four-week sickness absence is 64 per cent for a private-sector worker on average pay, compared to 11 per cent in the UK.

Similarly, the replacement rate of statutory maternity pay is lower in the UK than other rich countries. Statutory maternity pay would replace 27 per cent of earnings over a one-year maternity leave for a woman earning average pay in the private-sector, compared to a median replacement rate of 40 per cent across OECD countries (and there are 14 OECD countries where the replacement rate is above 50 per cent). The UK sets no minimum levels of advance notice for when workers must be notified of their shifts, and also offers workers a below-average number of minimum holiday days – 28, compared to the OECD median of 31.

And in some areas the UK has actively gone backwards, in 2011 extending to two years (previously one year) the period during which a worker has no protection from unfair dismissal. Currently 2.4 million workers in the bottom hourly pay quintile have been working for their employer for less than two years and have no protection against unfair dismissal.

A 'good work' agenda must provide a broad-based platform for treating lower earners with dignity

It is clear that pay isn't the only thing that matters at work. This is not just true in an abstract sense – things like being treated with dignity and being given adequate time off have a real and tangible value to workers. We surveyed workers on what, other than higher pay, would make a positive difference to them at work, and more than half said they would be willing to turn down a pay rise for this improvement – some as much as a 10 per cent rise. The most commonly-chosen improvements were more paid holiday, fewer hours, work to be less intense, more flexible hours, and a greater ability to work from home. Not far behind these was being treated with more dignity at work – chosen by one-in-20 respondents.

What concretely would a platform that aims to make progress look like? The priority areas would be sick pay, hours and pay volatility, and unfair dismissal, each of which can be broadly seen as policies relating to security at work. On sick pay, we must improve the level of SSP and make it universally available. We propose an earnings replacement approach, where SSP is paid at 65 per cent of a worker's usual earnings (close to the median OECD replacement rate over a four- week sickness absence of 64 per cent). Furthermore, the number of 'waiting days' should be reduced from three to one – meaning workers would receive SSP from the second day. For a full-time minimum wage worker facing a week off sick, this system would mean SSP of £203.19, compared to £43.76 under the current system. This would be a significant benefit to the approximately 4.1 million workers in the private-sector who expect to rely on SSP for protection when they are sick or the 1.6 million workers who earn too little to be eligible.

On hours and pay volatility, we propose a right to a contract with minimum hours (reflecting a worker's usual work pattern), a right to at least two weeks' advance notice of shifts, and compensation for late changes. This would be of benefit to the 1.1 million workers on a zero-hours contract and the 7.2 million workers who say they are anxious about unexpected changes in their hours of work (of whom 2 million are in the bottom hourly pay quintile). And the period after which unfair dismissal applies should be lowered to one year, as was the case until 2011. Both of these sets of changes are about treating low earners with greater dignity and respect, and giving them the kinds of security and control that higher earners take for granted.

Beyond these priority areas, there is also a case for raising the UK's floor when it comes to parental pay and raising the minimum holiday entitlement, where in both cases the UK should consider matching the median entitlements available in other OECD countries.

A rising minimum wage has had a transformative impact on the pay of the lowest earners

If the idea of raising standards to ensure wider access to good jobs sounds far-fetched, we should remember that when it comes to pay that is exactly what we have done. The improvements made to the minimum wage in recent years have transformed the low pay landscape in the UK.

Since the National Living Wage's 2016 introduction, the minimum wage has been lifted rapidly. In 2015 the adult minimum wage was worth 54.5 per cent of median hourly pay among the group covered; in 2022 this was 62.9 per cent. The UK's minimum wage is now among the highest in the world – currently the only rich countries with higher minimum wages (relative to median pay among full-time workers in those countries) are France, New Zealand and Korea. Based on the target path of the UK minimum wage, by 2024 the UK's minimum wage will have passed France and Korea's current minimum wage levels.

Raising the wage floor has hugely reduced hourly pay inequality. The proportion of employees in 'low' hourly pay (earning below two-thirds of the median) fell to 9 per cent in 2022 (2.5 million workers), by far the lowest since our data series begins in the late 1960s, and has more than halved from 21 per cent in 2015 (5.5 million workers). It has also fundamentally reshaped the distribution of pay growth – in the 1980s and 1990s, the highest earners saw the fastest pay growth and the lowest earners the slowest; this pattern has been reversed in the minimum wage era. Of course, the usual caveats apply, namely that the minimum wage only applies to the *hourly* pay of *employees*, and so has a limited impact on *weekly* pay inequality, and no direct impact at all on self-employed workers. But this is what a transformational policy looks like. And fast upratings are set to continue: the Government has set the Low Pay Commission a target of raising the National Living Wage to 'bite' of two-thirds of median hourly pay among the group covered by 2024.

We should continue to raise the minimum wage, although we need to think harder about when to stop uprating

Along with much-needed broadening of how policy improves lower-paid work, a good work agenda would continue to build on the success of the minimum wage. The current minimum target period ends in 2024, so policy makers need to decide this year what the next target should be. Based on the record so far – of significant wage gains, and negative employment effects still proving 'elusive' – it makes sense to set a new, higher target.

Continuing at the current pace of uprating (of raising the 'bite' of the minimum wage – its value relative to median hourly pay – at 1.2 percentage points per year) would imply a target path reaching a bite of 73 per cent by 2029, the likely end of the next parliament. On current OBR forecasts that would mean reaching a value of £13.12 in that year, or £25,660 per year for a full-time worker. The pace of uprating matters, because it determines how long it would take to row back from an uprating 'overshoot' – which if we keep raising the minimum wage is likely to happen at some point. Raising the bite at 1.2 percentage points per year would allow policy makers to 'undo' annual upratings fairly quickly by freezing the minimum wage in cash terms.

But importantly, alongside a new target path, we need a much clearer framework for deciding when to stop uprating. The Government's current remit is vague: the Low Pay Commission is asked to stop raising the minimum wage relative to typical pay when there is 'significant' risk to the employment prospects of affected workers. But 'significant' is not defined and too often it is taken to mean any meaningful negative effect on employment. This is not the appropriate test: it is right to avoid lastingly locking groups out of work given the impacts on health and well-being, but the lost wage gains from not proceeding with further minimum wage rises should not be ignored. (We should not turn down a wage gain for millions for the sake of lowering unemployment by a couple of hundred, for example.) While there is no right answer to calibrating the employment versus wages trade-off, it is time for the Government to think harder about what is acceptable and provide that steer to the Low Pay Commission, before rather than after disemployment effects are found. Targeting an employment elasticity of -0.3 (where 30 per cent of the wage gains to minimum wage workers are lost to lower employment) may be appropriate.

We need to think broadly when it comes to the trade-offs involved in raising minimum standards

As with the employment effects that worry policy makers when it comes to the minimum wage, other policy areas also involve specific trade-offs. For example, a sick pay scheme needs to balance the income protection offered to workers against potential incentives to 'shirk'. On that question, our judgement is that SSP could be significantly more generous while still offering strong work incentives. But this would still mean that UK workers would take more sick days – because they could afford to do so. At present, sick days in the UK amount to 4.5 days per worker per year, compared to 9.2 in France and 11.7 in Germany, both countries whose sick pay systems offer better income protection.

Overall, our proposals to raise minimum labour standards will lead to higher labour costs, and it will be important for policy makers to view them in the round. The Low Pay Commission should be tasked with evaluating impacts, and with advising Government on the timing and specifics of each policy area (i.e. we should apply the policy mechanism used to set the minimum wage to other areas).

But important as these 'micro' considerations are, we need to also think bigger about the trade-offs involved in raising minimum employment standards. In doing so, production costs would rise in sectors employing large numbers of low earners, including retail, hospitality and other non-tradeable services, and social care. Some of this would be passed on to consumers in the shape of higher prices (although the minimum wage literature tells us that other margins of adjustment, like profits and productivity, also apply). This in turn might lead to lower consumption and output in these sectors (or, in the case of social care, a higher demand on the public finances). And production patterns may also change – either in terms of how we produce (for example, production might become more capital intensive) or in what we produce (for example, the UK might produce less labour-intensive services).

We should take these effects seriously but, rather than panic about them, integrate them into a wider renewed economic strategy. First, the higher standards and prices trade-off is simply spelling out the clear distributional picture when it comes to raising employment standards. The benefits would mainly flow to lower-income households: among the poorest fifth of households, hospitality and leisure comprise a quarter of employment, compared to just a tenth of employment among the richest households. The costs, meanwhile, would be disproportionately borne by richer households, who spend a larger share than poorer households on those services (households in the top fifth of the income distribution spend 35 per cent of their money on hospitality and leisure, compared to 23 per cent among the poorest fifth of households).

A second reason is that, to the extent that changes in prices led to shifts in consumption behaviour, this would make the UK less exceptional compared to other countries. In the UK, hospitality (hotels and restaurants) is fairly cheap compared to other goods and services we consume (hospitality is 10 per cent cheaper in the UK than if the ratio of prices in hospitality to other goods in services was the same as in Europe as a whole); perhaps as a result, we consume a lot of it compared with most European countries (hospitality comprises 10 per cent of our consumption, compared to 6 per cent across the EU). Overall, therefore, the wider changes which could flow from higher minimum standards in the labour market are consistent with a wider strategy to raise growth and to reduce inequality.

We can and should improve work for low earners

It is easy to congratulate ourselves on the progress the UK has made on the minimum wage. And of course, we should – this progress has been real and meaningful. But we need to recognise that the broader challenges facing lower earners means the UK is a long way from having put ‘good jobs’ centre stage. Rather than just celebrating the minimum wage, we need to learn the lessons it provides about what is possible. Progress on minimum standards beyond pay certainly is – most similar economies already manage it. But we need to think about this in the context of our overall economic strategy, and about how that can provide more good jobs. A package of reforms which is grounded in that big-picture view of the nature of the UK economy and the challenges it faces means it is not just about improving work for low earners, but about all of us living in a better and less unequal country.

Introduction

Improving low-paid work should be central to the UK's economic strategy

Our two-year Economy 2030 Inquiry, a partnership with the Centre for Economic Performance at the London School of Economics, is investigating how the UK can make a success of the 2020s, and what kind of economic strategy is needed to tackle the UK's twin problems of low growth and high inequality.[1] In this report we focus on how labour market regulation can not only improve the quality of work, but also contribute to a transformation in the economic structure of the United Kingdom, and in so doing contribute to the broader objectives of reducing inequality and raising living standards.

Raising minimum standards in the labour market offers a chance to improve the quality of work, but could also change the shape of the economy

Discussions around labour market regulation have tended to focus on the micro effects of those policies: in minimum wage policy, for example, we tend to weigh up the wage benefits to workers against potential negative effects on employment. Of course, these do matter, and we will discuss the trade-offs involved in policy areas such as the minimum wage and sick pay later in this report. But we should also look at labour market policy through a broader lens, because it has the potential to shape the nature of our economy, and this has been largely absent from the policy discussion around labour market policy in the UK.

1 For more information, see: https://economy2030.resolutionfoundation.org/.

In big-picture terms, while we should worry about micro-level trade-offs involved in different areas of labour market policy, we should embrace or at least accept the macro-level effects that raising minimum standards in the labour market would bring. Along with improving the quality of work on offer to low-paid workers, raising minimum pay and conditions would also raise the cost of employing low-paid workers. In sectors where low-paid workers constitute a significant share of overall costs (such as retail and hospitality) and where the final product is sold in the UK rather than overseas (meaning it is easier to raise prices), this would be expected to have a knock-on impact on the relative price of those goods and services produced by that sector. In turn, and to the extent that consumption of those items is price-sensitive, we might expect consumption and output to fall in those sectors. Of course, for a low-paying sector like care which is primarily funded by the public sector, the effect of higher employment costs would be felt through public spending and taxation rather than through consumption and output.

Of course, we shouldn't be blasé about these kinds of changes, and the micro effects do matter. Big sectoral shifts would be concerning if they affected the employment prospects of the people working in those sectors (although this needn't be the case – the pace of change would likely be slow).[2] But the reason for setting this out is to be clear that these potential effects are the likely cost of ensuring all workers can enjoy dignity and security at work.

Moreover, it's striking that some personal services are currently relatively cheap in the UK compared to other things we consume, and, perhaps as a result, they comprise a large share of our consumption. If this was to change, the UK would be becoming more similar to other European countries. Figure 1 plots the share of residents' consumption accounted for by hotels and restaurants across European countries, along with the price of hotels and restaurants relative to other goods and services consumed within the country. The UK stands out compared to many other European countries for its relatively cheap hotels and restaurants, and the large share of our spending which goes on them. If higher labour market standards led to higher relative prices and less consumption of hospitality, the UK might become more similar to other European countries (i.e. move closer to the middle of Figure 1).

2 N Cominetti et al., Changing jobs?: Change in the UK labour market and the role of worker mobility, Resolution Foundation, January 2022.

FIGURE 1: **Hospitality is relatively cheap in the UK, and we consume a lot of it**

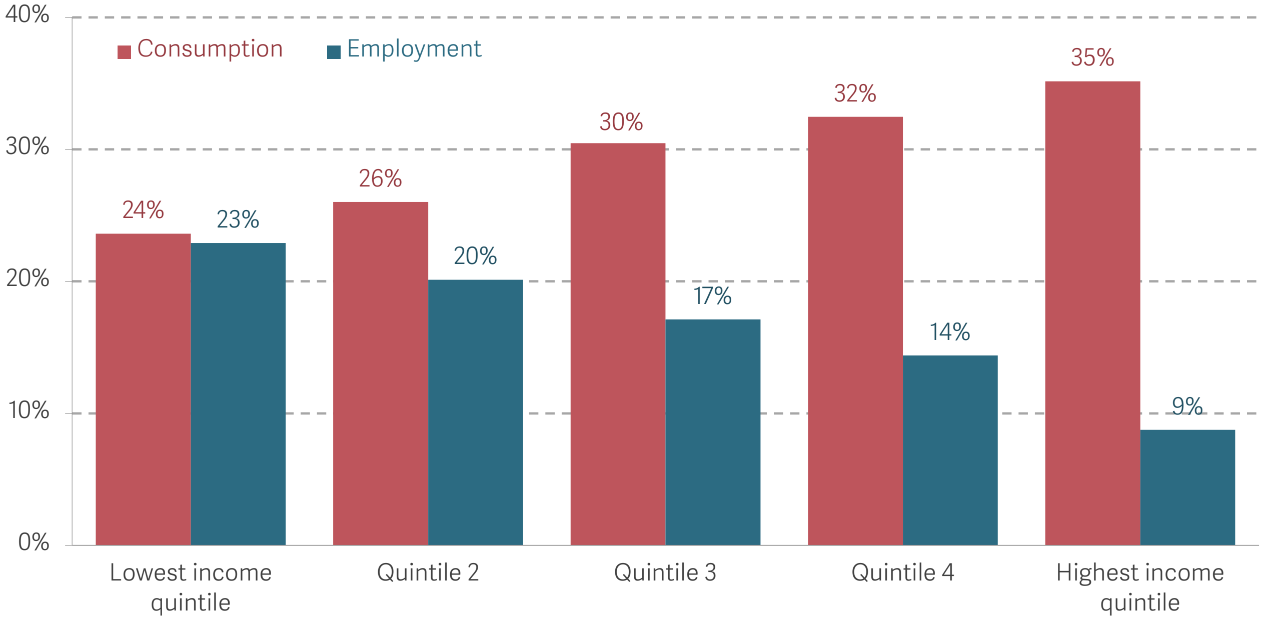
Hotels and restaurants: share of consumption by residents (2015), and price of relative to other goods and services within economy (2019): EU countries

SOURCE: Analysis of Eurostat.

Another reason to embrace higher labour market standards is the clear distributional impact. Workers in low-income households stand to benefit most from raising pay and conditions in personal service sectors because that is where their employment is concentrated. On the other hand, if such measures increased the price of those services (which they very plausibly would), it would be richer households who would be most affected – because personal services form a larger share of richer households' spending. This relationship is shown in Figure 2, which plots the share of consumption and employment accounted for by the retail, leisure and hospitality sectors, for each household income quintile. Those services account for just under a quarter of consumption and employment for the poorest households (24 per cent and 23 per cent respectively), while they account for a third (35 per cent) of consumption and less than a tenth (9 per cent) of employment for the richest households. This means that raising standards in those sectors would be desirable from a distributional perspective.

FIGURE 2: **Better pay and conditions in non-tradeable services would benefit low income households, while any price effects would be mainly felt by higher-income households**

Retail, leisure and hospitality as a share of consumption and employment, by after-housing-costs income quintile: UK, 2019-20



SOURCE: Analysis of ONS, Living Costs and Food Survey; DWP, Family Resources Survey.

We need to focus on improving the jobs we have rather than hoping for new ones

Another high-level point worth making is that efforts to improve low-paid work must focus on improving the jobs we have in the UK today, rather than hoping for new and 'better' types of jobs to emerge which will solve the problem for us. Low-paid work in the UK is predominantly made up of jobs in private-sector non-tradeable services of various kinds, which account for 1.5 million out of 2.5 million low-paid jobs (defined as earning below two thirds of the hourly median wage).[3] While new forms of work will continue to emerge, history tells us that these types of service jobs aren't going anywhere. For the economy as a whole, private non-tradeable services (including retail, bars and restaurants, care, and other personal services) account for a similar share of employment today (10.8 million jobs, 34 per cent of the total) as they did thirty years ago (in 1992 these figures were 33 per cent and 7.8 million jobs).[4] And while the net zero transition and

3 Source: RF analysis of ONS, Annual Survey of Hours and Earnings (2022). Non-tradeable private-sector services here excludes public services apart from social care. It covers the following Standard Industrial Classification divisions: 45 Vehicle sales & repaid, 47 Retail trade, 49 Land transport, 53 Postal activities, 56 Food and beverage services, 68 Real estate, 75 Veterinary activities, 77 Renting and leasing services, 79 Travel agencies, 80 Security and investigation, 87-88 Social care, 90 Creative, arts and entertainment, 91 Libraries, archives, museums and other cultural activities, 93 Sports activities and amusement and recreation activities, 94 Activities of membership organisations, 96 Other personal service activities. This list is largely based on that developed by B Broadbent et al., The Brexit Vote, Productivity Growth and Macroeconomic Adjustments in the United Kingdom, mimeo., 2020, apart from the removal of public services apart from social care, and the inclusion of food and beverage services.

4 Source: RF analysis of ONS, Workforce Jobs. Sectors included are as listed in the previous footnote.

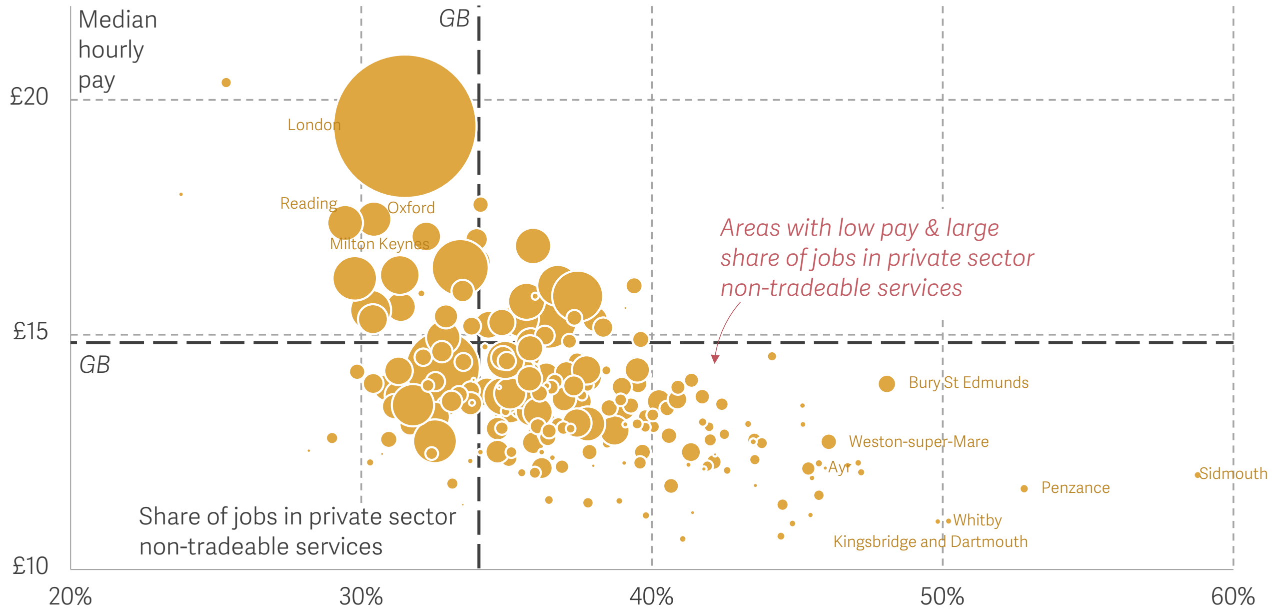
perhaps the adoption of new technology could give fresh impetus to structural change, again history tells us to be cautious. The pace of change in terms of the sectors we work in has actually been slowing down rather than speeding up since the 1980s, when the big shift from manufacturing to services took place.[5]

Another reason for focusing on these jobs is that there are many parts of the country which are especially reliant on them. Figure 3 plots the median hourly pay and the share of jobs in non-tradeable services (excluding the public sector) for each local labour market (proxied by 218 travel-to-work areas). That there are many local areas where pay is low, and where the share of jobs in non-tradeable services is well above the national average (this applies to all areas shown in the bottom right quadrant of the chart). In some coastal and rural towns these sectors account for around 1 in 2 jobs, including places such as Sidmouth (59 per cent of al jobs), Penzance (53 per cent), and Whitby (50 per cent). In these places a radical shift in industrial structure is even less likely than it is at the national level. The country is too small to have 'global cities' in every region, despite what the Levelling Up White Paper said.[6] If we are serious about good work being available in all parts of the country, then we need to focus on measures which will make a difference to workers in these jobs, many of which are concentrated in the poorest parts of the country.

5 N Cominetti et al., Changing jobs?: Change in the UK labour market and the role of worker mobility, Resolution Foundation, January 2022.
6 Department for Levelling Up, Housing and Communities, Levelling Up the United Kingdom, February 2022.

FIGURE 3: **The goal of good work being available everywhere means using minimum standards to improve all jobs, especially in non-tradeable services**

Median hourly pay (2022) and share of jobs in non-tradeable services excluding the public sector (2021), by travel to work area: GB



NOTES: Bubble size represents total jobs in travel to work area. Area refers to location of workplace. Non-tradeable private-sector services here excludes public services apart from social care. It covers the following Standard Industrial Classification divisions: 45 Vehicle sales & repaid, 47 Retail trade, 49 Land transport, 53 Postal activities, 56 Food and beverage services, 68 Real estate, 75 Veterinary activities, 77 Renting and leasing services, 79 Travel agencies, 80 Security and investigation, 87-88 Social care, 90 Creative, arts and entertainment, 91 Libraries, archives, museums and other cultural activities, 93 Sports activities and amusement and recreation activities, 94 Activities of membership organisations, 96 Other personal service activities. This list is largely based on that developed by B Broadbent et al., The Brexit Vote, Productivity Growth and Macroeconomic Adjustments in the United Kingdom, mimeo., 2020, apart from the removal of public services apart from social care, and the inclusion of food and beverage services.
SOURCE: Analysis of ONS, Business Register and Employment Survey; ONS, Annual Survey of Hours and Earnings (both via Nomis).

The rest of this report is organised as follows.

- Section 2 presents some measures of 'good work', and how this varies for high and low-paid workers.
- Section 3 shows that when it comes to pay, the UK has a high (and rising) floor, and this has hugely reduced hourly pay inequality.
- Section 4, by contrast, shows that this is not the case for the floor when it comes to conditions and protections, where the UK has a very low level compared to other countries.
- Section 5 sets out a set of policy options for improving pay and conditions.
- Section 6 concludes.

Section 2

The uneven distribution of ‘good’ work

Focusing on the quality, not just quantity, of work should be at the heart of any modern economic strategy. Quality work matters for our well-being and happiness: twice the share of workers with insecure working hours report that work makes them feel miserable when compared to workers that have secure hours (11 per cent versus 5 per cent). And ‘bad’ elements of work tend to most concentrated in some personal service jobs (such as administrative occupations, elementary sales and for drivers).

There is an unequal distribution of ‘quality’ work (which includes both aspects that are amenable to policy and those of a more subjective nature) when it comes to how much workers are paid. Survey evidence shows that over half (56 per cent) of workers with a gross individual income below £20,000 expect not to be paid if they had to miss a day of work because of a family emergency, compared to one-in-ten (12 per cent) of workers with incomes over £60,000. A range of other ‘bad’ work attributes are particularly concentrated on the lowest paid workers, including four-in-ten (38 per cent) of employees in the lowest-paid quintile expressing they have “little or no autonomy over the tasks they do at work”. Finally, insecure work and a lack of autonomy or satisfaction with work is concentrated among Black, disabled and young workers.

Focusing on the quality, not just quantity, of work should be at the heart of any modern economic strategy. This Section sets out evidence on the inequalities that exist between workers when it comes to the quality of work. In particular, we focus on contract or hours insecurity and the regularity of hours worked – aspects of work that can be regulated. We also draw attention to some of the more subjective attitudes towards work – namely, job satisfaction and feeling of autonomy at work. In doing so we build the argument that good work should be in all pockets of the labour force: everyone deserves a decent wage and to be treated with dignity at work. And work should be fulfilling – after all, most of us spend a large share of our waking hours at work. In later Sections of this report we turn to the specifics of what can and should be done to raise minimum labour market standards.

Quality work matters for well-being

First off, we should care about good quality work because it matters for workers' lives and well-being. Working with high intensity, for example – something that has risen in the UK[7] – increases the likelihood of people reporting stress, depression and burnout.[8] The reverse is true for more 'positive' aspects of work: levels of overall well-being tend to be particularly high for workers who feel they have autonomy over tasks at work or where there are opportunities for progression.[9]

Certain forms of insecure work – which are a big part of 21st century life for the lowest-paid workers – can have pernicious effects on our well-being and happiness.[10] For example, twice the share of workers with insecure working hours report that work makes them feel miserable than among workers that have secure hours (11 per cent versus 5 per cent).[11] And one-in-five (20 per cent) of those workers on insecure hours also report work makes them feel uneasy, compared to one-in-ten (9 per cent of) workers with secure hours of work. This evidence provides reason to believe that giving workers more security in some parts of their job, specifically secure working hours, might improve these workers' well-being.[12]

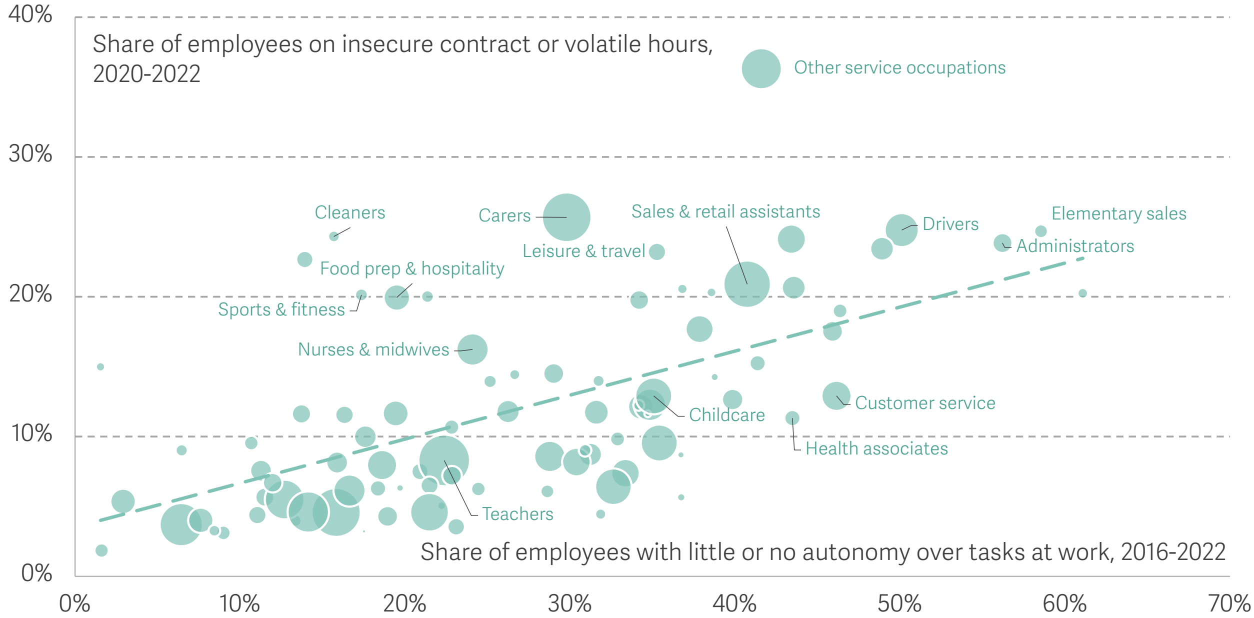
'Bad' work characteristics are concentrated in certain jobs

A second related reason as to why we should focus on job quality is that jobs tend to be 'bad' in more than one way. As Figure 4 shows, occupations with a high share of workers on insecure contracts or where hours and pay vary (i.e. insecure hours) also tend to be those where employees report little or no autonomy over tasks at work. This is particularly apparent for some service jobs – such as administrative occupations, where 56 per cent of employees have little or no autonomy over tasks at work and 24 per cent experience contract or hours insecurity.

7 K Shah & D Tomlinson, Work experiences: Changes in the subjective experience of work, The Economy 2030 Inquiry, May 2021.
8 T Hunt & H Pickard, Harder, better, faster, stronger? Work intensity and 'good work' in the United Kingdom, Industrial Relations Journal 53(3), April 2022.
9 Analysis of ONS, Annual Population Survey.
10 Contract insecurity, hours or pay volatility and hours insufficiency are most concentrated on the lowest paid workers, for example. See: N Cominetti et al. Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
11 Analysis of UK Skills & Employment Survey, 2017.
12 A Felstead et al., Unpredictable times: the extent, characteristics and correlates of insecure hours of work in Britain, Industrial Relations Journal 51(1-2), January 2020.

FIGURE 4: **Jobs tend to be 'bad' in more than one way – particularly among some personal service occupations**

Proportion of employees with little or no autonomy over tasks at work compared to those on an insecure contract or where hours and pay vary, by occupation: UK



NOTES: Each circle represents one occupation, measured at the three-digit SOC level. Size of circle represents
average number of workers in the occupation in 2020-2022. Includes employees only. Autonomy questions in Understanding Society are only asked every other wave, so these figures pool the latest three years of available data in each survey.
SOURCE: Analysis of UK Household Longitudinal Study (Understanding Society); UK Skills & Employment Survey; ONS, Labour Force Survey.

This is by no means a perfect relationship. A very high share of carers (30 per cent), for example, are on insecure contracts or volatile hours – but a more modest share of this group feel that they have little or no autonomy over tasks at work (26 per cent).[13] The reverse is true for customer service occupations, where around 13 per cent of employees have insecure contracts or hours but nearly half of employees (46 per cent) feel they have little or no autonomy over tasks at work.

This result extends previous Economy 2030 work showing that some (low-paid) personal service occupations experience high levels of both contract or hours insecurity and hours insufficiency.[14] At a minimum, workers deserve the dignity and respect that control over hours and contracts provide. But we should place equal weight on the sense of workplace autonomy, which is highly prized by workers and – given the relationship highlighted in Figure 4 – may even be influenced by the incidence of insecure work.

13 For further discussion of working conditions in this sector – and the nuances around the subjective experiences of social care workers – see: N Cominetti, Who cares?: The experience of social care workers, and the enforcement of employment rights in the sector, Resolution Foundation, January 2023.
14 K Shah & D Tomlinson, Work experiences: Changes in the subjective experience of work, September 2021.

Having set out our reasons for focusing on job quality, we next turn to the experience of job quality across groups of workers and in different parts of the country. But before turning to the distribution of quality work, we need to be clear that there is no single definition of what constitutes a 'good' or 'quality' job.[15] There are, however, a series of domains and aspects which we believe need to be viewed in the round to understand the quality of work (see Box 1).

BOX 1: **'Good' work can be defined in many ways**

To assess the quality of work, we need to be able to measure a range of job quality measures.[16] Combining questions from the Annual Population Survey (APS)/Labour Force Survey (LFS) with measures from the UK Skills and Employment Survey (UKSES) and the UK Household Longitudinal Study (Understanding Society) it is possible to create a holistic picture of job quality in the UK (see Figure 5).

There are large differences in the share of employees reporting they have these different elements of job quality. The features of job quality reported by the highest share of employees are having a desired contract (99 per cent), being satisfied with their manager (85 per cent) and satisfied with training (69 per cent). Some features like agency work or being on a ZHC are only experienced by a relatively small share of employees (around 3 per cent for both).

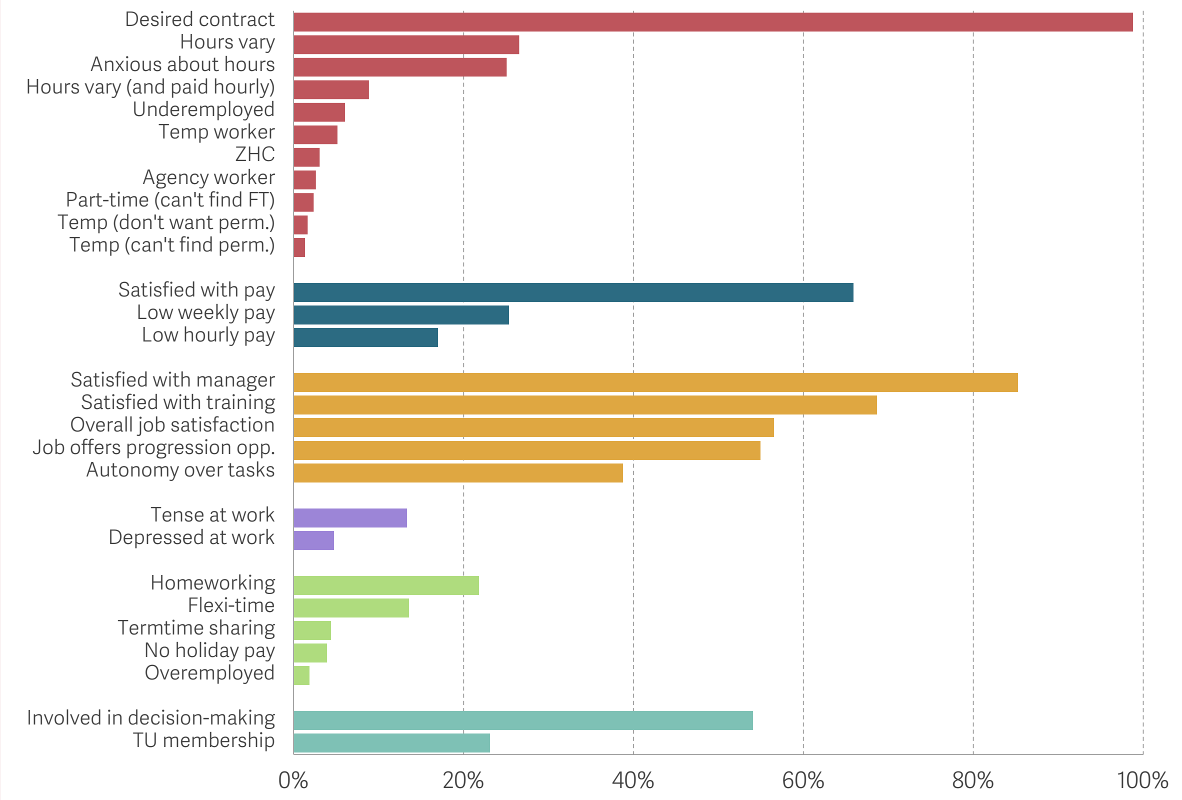
Some of the elements of job quality experienced by employees are more amenable to policy, for example, contract or hours security, low hourly pay and holiday pay entitlements. Other elements might be considered less amenable to policy such as different measures of satisfaction or some of the 'bad' elements of work like feeling tense, depressed or anxious. These aspects are perhaps more difficult to regulate but this does not mean they are any less important.

15 Some organisations have sought to create an overall measure of job quality. See, for example: Lumina Foundation, Gates Foundation and Omidyar Network Tell Full Story of U.S. Job Quality, Gallup. In the UK, the ONS has in the past provided a composite measure of 'job quality' consisting of having a desired contract, satisfactory hours and not being in low pay – although the ONS itself recognises that this measure does not provide a complete picture of 'job quality'. See: ONS, Job quality indicators in the UK – hours, pay and contracts: 2018, December 2019.

16 The Measuring Good Work final report recommended existing and new survey questions that could be used to assess "quality employment". To fill the existing data gap the ONS has incorporated more job quality indicators into its Annual Population Survey (APS)/Labour Force Survey (LFS). See: G Irvine, D White & M Diffley, Measuring Good Work: The final report of the Measuring Job Quality Working Group, The Carnergie UK Trust & Royal Society of Arts, September 2018.

FIGURE 5: **There are lots of different elements that determine the quality of work**

Proportion of employees reporting that their job has feature of different measures of job quality: UK/GB, 2017-2022



NOTES: Each measure provides the latest year available from the dataset used.
SOURCE: Analysis of British Household Panel Survey; UK Household Longitudinal Study (Understanding Society); UK Skills & Employment Survey; ONS, Labour Force Survey; ONS, Annual Population Survey; BEIS, Trade Union Membership Statistics.

The literature suggests that workers place different values on the indicators in Figure 5 – and the overall quality of work. The simplest way to glean this information is to ask workers directly what they value. For example, the UKSES asks workers "what is the main attraction of your current job"? For over a third of respondents in the latest wave (2018-2020) the response is either "better money" (20 per cent) or "better career prospects" (15 per cent).[17] Another way of measuring job quality is to look at the relationship between different indicators and overall job satisfaction. UK research suggests that job security and how much you like work explains much of the differences in job satisfaction.[18] Finally, workers might also be willing to trade-off pay to enjoy other benefits at work; for example, US-based work finds that

17 Analysis of UKSES.
18 M Williams, Y Zhou & M Zou, Mapping Good Work: The Quality of Working Life Across the Occupational Structure, Bristol University Press, September 2020.

workers at Walmart would forgo wages for more "dignity at work"[19] and that non-pay amenities (like days of annual leave) offer a wage premium.[20]

Some of the indicators detailed in Figure 5 will matter more or less depending on who you are and what job you work in. For example, there are clear gender differences. In wave 14 of the British Household Panel Survey (BHPS) women placed a higher importance on "the nature of work" than men. This finding holds across a range of European countries and women are also found to place greater importance on work-life balance than men.[21]

Overall, there are a range of job quality measures we should care about. Pay clearly matters but it is not the whole story (particularly given workers are willing to trade-off their wages for other benefits). In this report we present a range of indicators including pay, contract and hours security, job satisfaction, autonomy at work, flexibility and opportunities for career progression.

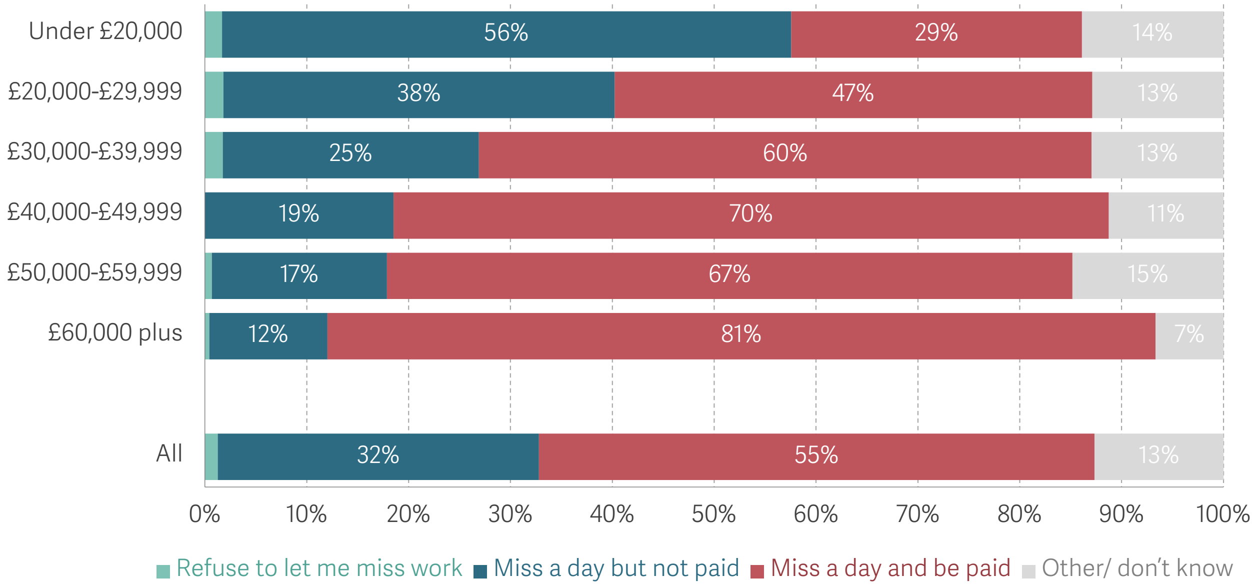
Large inequalities exist when it comes to 'quality' work – for example on flexible working arrangements

As already discussed (see Box 1), workers value the non-pay aspects of work – some of which workers have rights to (like holiday and sick leave) and other aspects they do not (like working from home). Next, we show that the degree of flexibility provided to employees by their employers differs across groups. How employees expect their employers to respond if they needed to attend a family emergency, for example, is not consistent across the income distribution (see Figure 6). As an employee one is legally allowed to take time off to deal with an emergency involving a dependent.[22] But over half (56 per cent) of workers with a gross individual income less than £20,000 expect not to be paid if they missed a day of work for this reason compared to just one-in-ten (12 per cent) of workers with incomes over £60,000. By contrast, eight-in-ten (81 per cent) of workers earning above £60,000 said they would expect to be paid as normal. Just three-in-ten (29 per cent) of the lowest paid workers would expect to miss a day and be paid. So, most workers expect to be able to miss a day in the case of an emergency but the lowest income workers are least likely to receive some form of remuneration for time off.

19 A Dube, S Naidu & A Reich, Power and Dignity in the Low-Wage Labor Market: Theory and Evidence from Wal-Mart Workers, NBER, Working Paper 30441, September 2022.
20 N Maestas et al. The Value of Working Conditions in the United States and Implications for the Structure of Wages, NBER, Working Paper 25204, October 2018.
21 P Redmon & S McGuinnes, Explaining the Gender Gap in Job Satisfaction, IZA Discussion Paper 12703, October 2019.
22 https://www.gov.uk/time-off-for-dependants, accessed 5 April 2023.

FIGURE 6: **Big inequalities exist on flexible working arrangements**

Proportion of private-sector employees reporting how their employer would respond if they needed to attend a family emergency, by gross individual income band: UK, 10-14 March 2023



NOTES: Base is all private-sector employees (n=2011). All also includes those who didn't give an income figure. Under £20,000 (n=330), £20,000-£29,999 (n=477), £30,000-£39,999 (n=340), £40,000-£49,000 (n=238), £50,000-£59,000 (n=144) and £60,000 plus (n=223).
SOURCE: Analysis of YouGov, March 2023 survey.

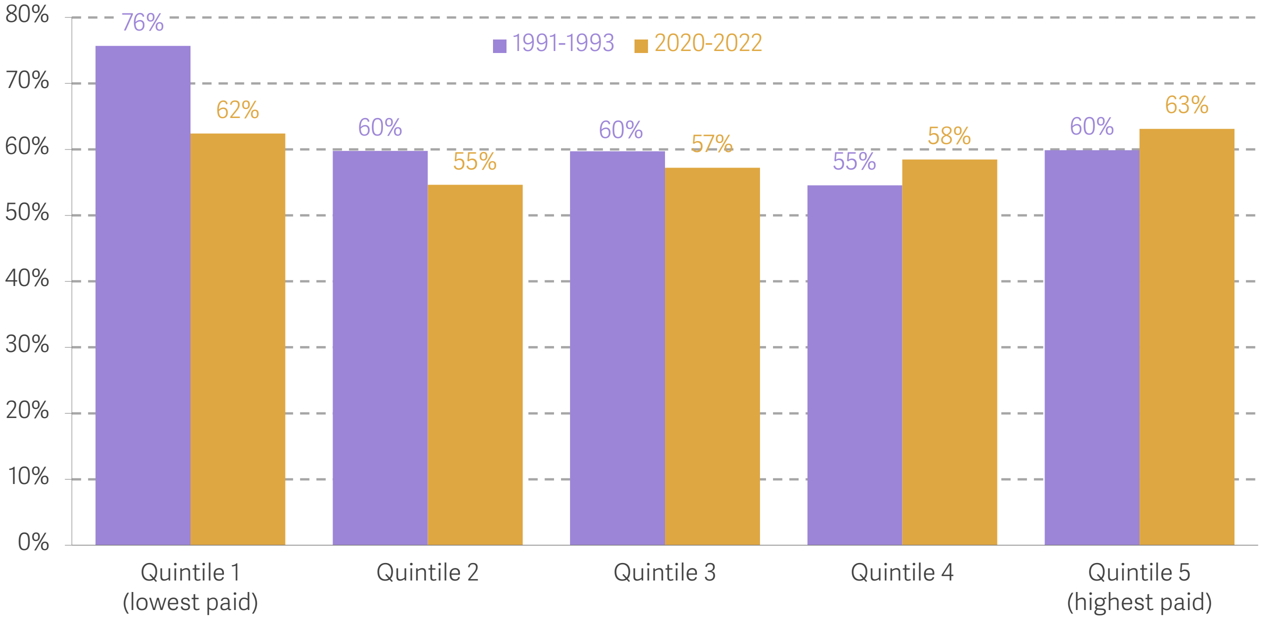
Thirty years ago, low-paid workers enjoyed a job satisfaction premium – that's largely gone

To assess quality work, it is important to understand the subjective value workers place on work in and of itself. Most straightforwardly, this means looking at trends in overall job satisfaction. Figure 7 plots the proportion of employees who report that they are either 'mostly' or 'completely' satisfied with their present job in 1991-1993 and 2020-2022. The most striking feature of the last three decades is that the satisfaction premium enjoyed by low-paid workers has virtually disappeared. In the early 1990s, around 76 per cent of workers in the lowest paid quintile were "mostly" or "completely" satisfied with their jobs compared to around 60 per cent of the highest paid workers. Fast forward to 2020-2022 and the rates of job satisfaction for the lowest (62 per cent) and highest (63 per cent) paid workers look remarkably similar. As previous Economy 2030 work has highlighted, this is a story of low earners having lost their satisfaction premium rather than having fallen behind the rest – which means that some of the non-pay benefits for the lowest paid have disappeared over time.[23] This is consistent with low-paid work having become more stressful and intense.

23 D Tomlinson & K Shah, https://economy2030.resolutionfoundation.org/reports/work-experiences/, Resolution Foundation, September 2021; A Clark et al., The true returns to the choice of occupation and education, Centre for Economic Performance, February 2021.

FIGURE 7: **The low paid job satisfaction premium has disappeared**

Proportion of employees who are "mostly" or "completely" satisfied with their present job overall, employees by monthly earnings quintile: GB/UK



SOURCE: Analysis of British Household Panel Survey; UK Household Longitudinal Study (Understanding Society).

Markers of 'bad' work are found in all types of jobs - but are experienced most by low earners

Next, we turn to a range of 'bad' aspects of work and where they are most concentrated. We find that examples of 'bad' quality work are found everywhere. As Figure 8 highlights 28 per cent of workers either feel they have "little or no autonomy over the tasks they do at work" or that they are "not satisfied with their job". Focusing on specific occupations with the highest share of employees who are "not satisfied with their job" there is a real mix, including elementary sales (39 per cent), legal professionals (38 per cent), elementary administrators (38 per cent) and IT technicians (37 per cent). Even some jobs that we might traditionally identify as 'good' (perhaps in terms of pay level or hours security) might therefore have 'bad' characteristics.[24]

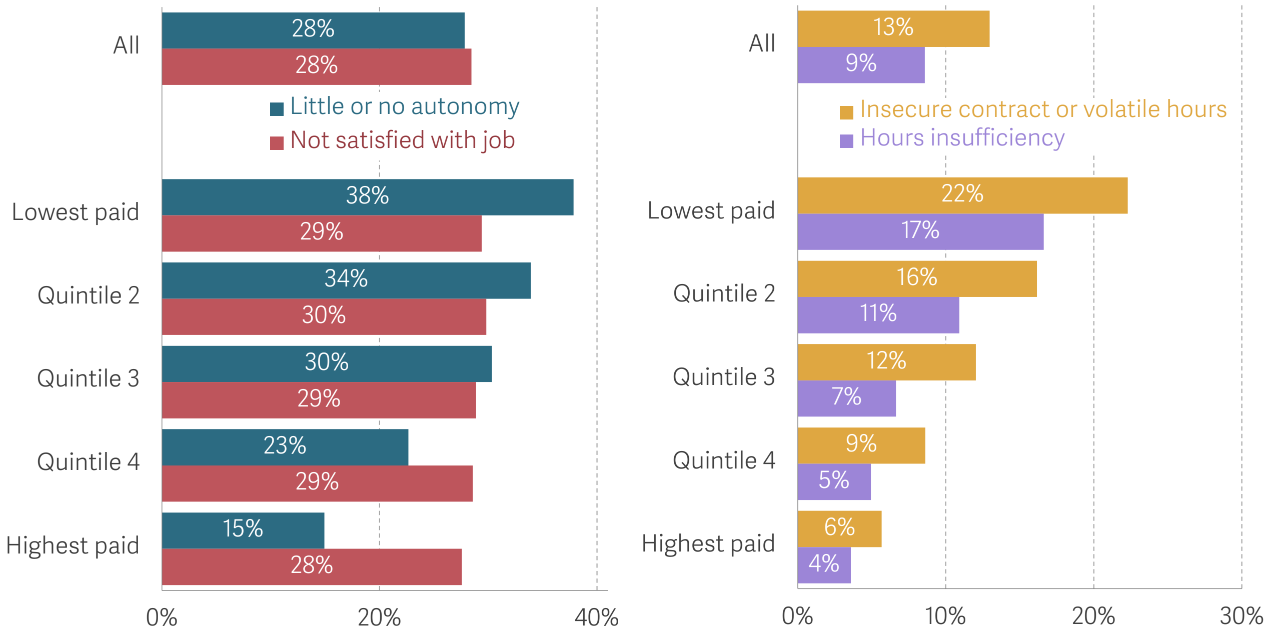
Having said this, a range of 'bad' work attributes are particularly concentrated among the lowest paid workers - with 38 per cent of employees in the lowest paid quintile expressing they have 'little or no autonomy over the tasks they do at work'. This is less of a surprise when we consider that most occupations with little or no autonomy (see Figure 4) tend to be lower paid. The right-hand panel of Figure 8 underlines how insecure contracts or volatile hours and hours insufficiency are much more prevalent among low earners than high earners. We have previously explored the direct impact of this on wellbeing – in

24 S O'Connor, It is possible to hate your job but love your work, Financial Times, February 2023.

2017, 36 per cent of employees in the bottom hourly pay quintile said they are anxious about unexpected changes in their hours of work (amounting to 2 million workers, out of a total of 7.2 million workers across all pay level who report this anxiety).[25] Crucially, the UK currently has no system in place for offering protection against this. Introducing minimum standards in these areas would therefore improve the quality of work in the UK especially for the lowest paid workers.[26]

FIGURE 8: **Examples of 'bad' work are found everywhere – but are most concentrated among low paying jobs**

Proportion of employees reporting that their job has feature of selected measure of job quality, hourly pay quintile: UK, 2020-2022/2022



NOTES: 'Insecure contract or volatile hours' includes workers who: are paid hourly and hours vary; are on a temporary contract involuntarily; agency workers; and workers on a zero-hours contract. 'Hours insufficiency' includes workers who want to work more hours; who are working part-time and would prefer to work full-time; or who are looking for a new job for reason of wanting to work more hours. Measures were first used in: N Cominetti et al. Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
SOURCE: Autonomy and job satisfaction from analysis of UK Household Longitudinal Study (Understanding Society) (2020-2022); Insecure contract / volatile hours & hours insufficiency are from analysis of ONS, Labour Force Survey (2022).

Insecure work and a lack of autonomy or satisfaction with work is concentrated among black, disabled and young workers

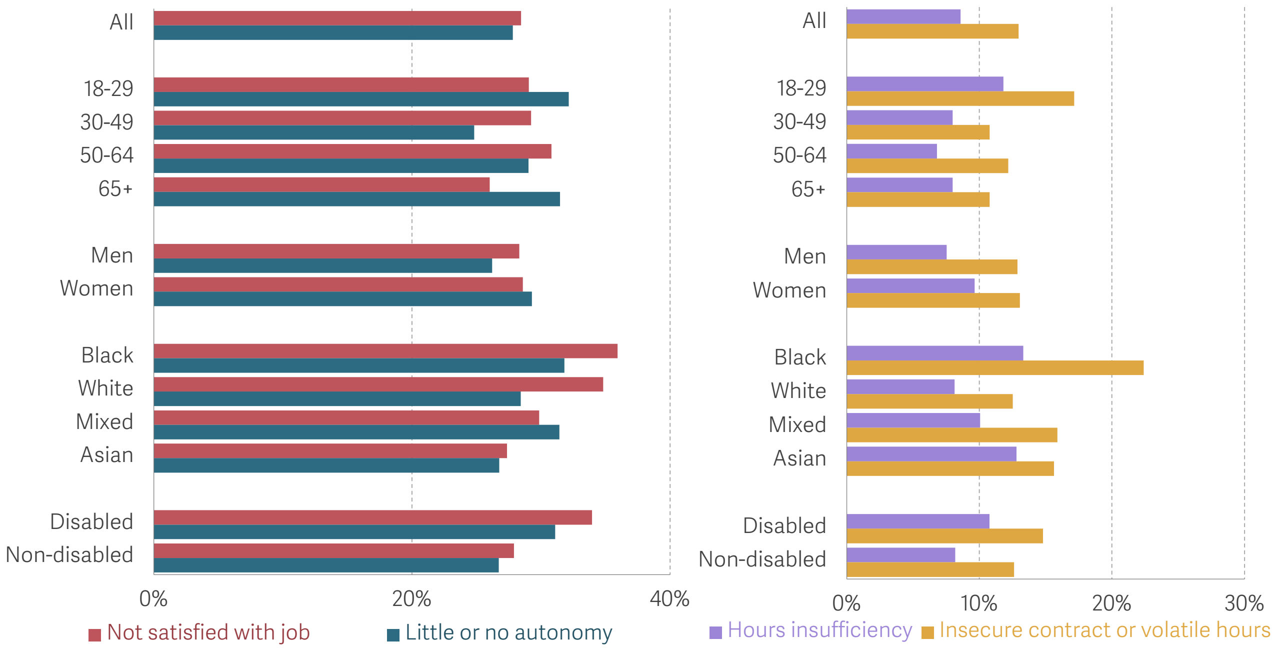
We next turn to the distribution of quality work across different demographic groups. Again, we focus on not being satisfied with your job, feeling little or no autonomy over tasks at work, having insufficient hours and workers who are on insecure contracts or

25 N Cominetti, C McCurdy & H Slaughter, Low Pay Britain 2021, June 2021.
26 T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect, Resolution Foundation, June 2020.

have volatile hours. We have already presented evidence that these elements of poor-quality work are concentrated among some low paying occupations (like administrators, elementary sales and services occupations) – and low-paid workers more generally. It follows that certain demographic groups who are over-represented in low paid jobs will be most likely to experience these negative sides to work. We can see from Figure 9 that insecure work (including hours insufficiency and insecure contracts/ volatile hours) and a lack autonomy or satisfaction at work is concentrated among young, black and disabled workers. The proportion of black workers on insecure contracts/volatile hours or with insufficient hours is almost twice that of white workers (22 per cent versus 13 per cent and 13 per cent versus 8 per cent, respectively). In a similar vein, 34 per cent of disabled workers are not satisfied with their job compared to only 28 per cent of non-disabled workers.

FIGURE 9: **Insecure work and a lack of autonomy or satisfaction is concentrated among black, disabled and young workers**

Proportion of employees reporting that their job has feature of selected measure of job quality, demographic groups: UK, 2020-2022/2022



NOTES: See notes in Figure 8 for a description of the measures used.
SOURCE: Autonomy and job satisfaction from analysis of UK Household Longitudinal Study (Understanding Society) (2020-2022); Insecure contract / volatile hours & hours insufficiency are from analysis of ONS, Labour Force Survey (2022).

The differences we observe between demographic groups will be determined by job, rather than personal, characteristics. We can formalise this line of thought by running a "dominance" analysis (which runs every possible combination of a regression model and determines the relative importance of independent variables in explaining the variation for a dependent variable). Measures of workplace insecurity are most associated with occupation, pay and sector rather than personal characteristics like ethnicity, disability status or age.[27] Using a similar approach regression analysis shows that differences in whether someone is not satisfied with their job or feels little or no autonomy over tasks at work are almost entirely explained by their occupation – and to a lesser extent their pay. In other words, being serious about job quality means raising standards at the level of the job.[28]

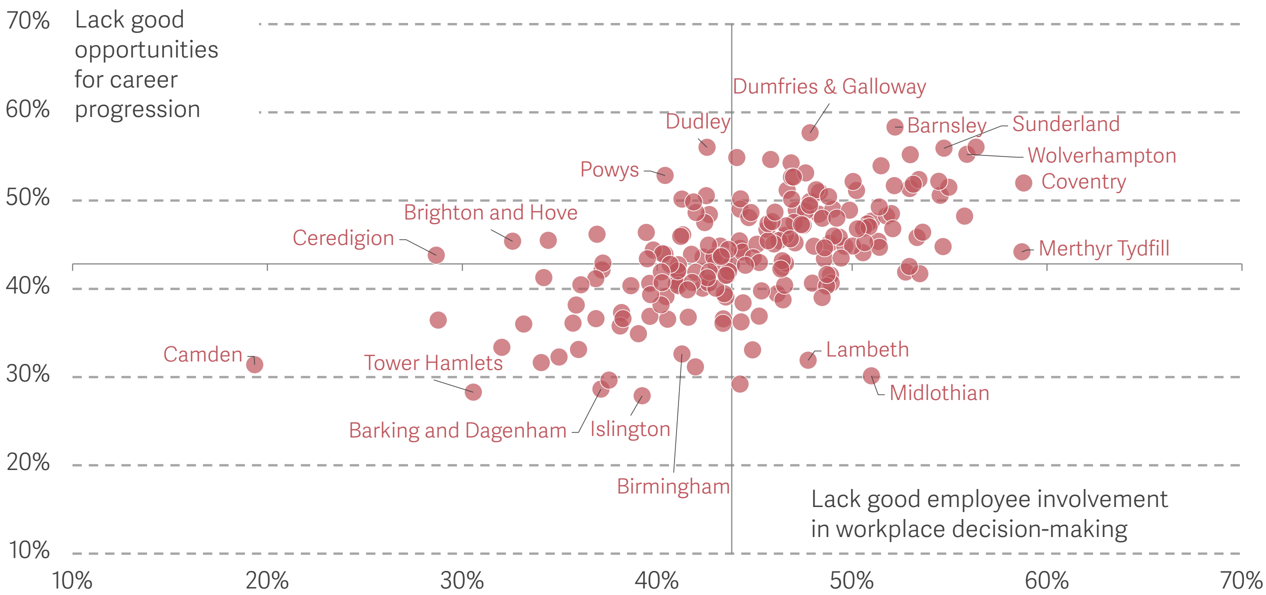
There are large geographic differences in unfavourable job characteristics

Finally, we highlight that large geographic differences exist when it comes to unfavourable job characteristics. We show that this is the case in Figure 10, which charts the share of employees with not good employee involvement in decisions made at the workplace (horizontal axis) and where employees feel there is no good opportunities for progression in their job (vertical axis) - at the local authority level. Over half of employees have no good opportunities for progression in the likes of Dudley (56 per cent), Sunderland (56 per cent), Barnsley (55 per cent) and Wolverhampton (55 per cent). This is around twice the rate of London boroughs like Barking and Dagenham (29 per cent), Islington (28 per cent) and Tower Hamlets (28 per cent). These geographic trends will be driven by the industrial make-up of different local labour markets. For example, there is a disproportionate share of employees working in professional services (particularly finance) in the capital – in which workers report the highest perceived progression opportunities.[29]

27 N Cominetti et al., Low Pay Britain 2022, Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
28 Analysis of UK Household Longitudinal Study (Understanding Society).
29 Office for National Statistics, Job quality in the UK – analysis of job quality indicators: 2021, December 2022.

FIGURE 10: **There are large geographic differences in unfavourable job characteristics**

Proportion of employees who express not good employee involvement in decisions made at work and no good opportunities for career progression, local authorities: 2021



SOURCE: Analysis of ONS, Annual Population Survey.

Overall, we would like more people to have a positive experience at work, to have the opportunity to find good work, and to remove the worst aspects of work. Low-paid workers deserve particular attention – given that they have little say at work when it comes to things like the regularity of hours, shift patterns and flexible working arrangements. As we have shown in this section there are many aspects of quality work that cannot be directly regulated for – such as job satisfaction, autonomy at work and opportunities for progression. But there are some elements of work we can regulate for – and that is what the rest of the paper focuses on.

Section 3

The impact of a rising minimum wage

The improvements made to the minimum wage in recent years have transformed the low pay landscape in the UK. Since 2016 and the introduction of the National Living Wage the minimum wage has been lifted rapidly the UK's minimum wage is now among the highest in the world – currently the only countries which are similarly rich to the UK with higher minimum wages (relative to median pay among full-time workers in those countries) are France, New Zealand and Korea.

Raising the wage floor has hugely reduced hourly pay inequality. The proportion of employees in 'low' hourly pay (earning below two-thirds of the median) fell to 9 per cent in 2022 (2.5 million workers), by far the lowest since our data series begins in the late 1960s, and down from 21 per cent in 2015 (5.5 million workers). It has also changed the shape of pay growth – in the 1980s and 1990s the highest earners saw the fastest pay growth and the lowest earners the slowest, and this pattern has been reversed in the minimum wage era.

We showed in the last section that good work is highly unequally distributed, and noted that some dimensions of what makes work good can be improved by setting minimum standards. In the next two sections we describe where the UK currently stands when it comes to minimum standards on pay (this section) and conditions and non-pay amenities (the following section). The contrast is clear. The UK has made tremendous progress on low pay thanks to an ambitious minimum wage policy, which has pushed the UK's wage floor to among the highest in the world. This has hugely benefited low-paid workers. By contrast, the next section will show that the UK has low minimum standards compared to other rich countries when it comes to sick pay, parental pay and holiday entitlement, and has done little to address pay and hours insecurity.

Hourly pay inequality, and the proportion of workers in 'low pay' is at a record low, thanks to big increases in the minimum wage

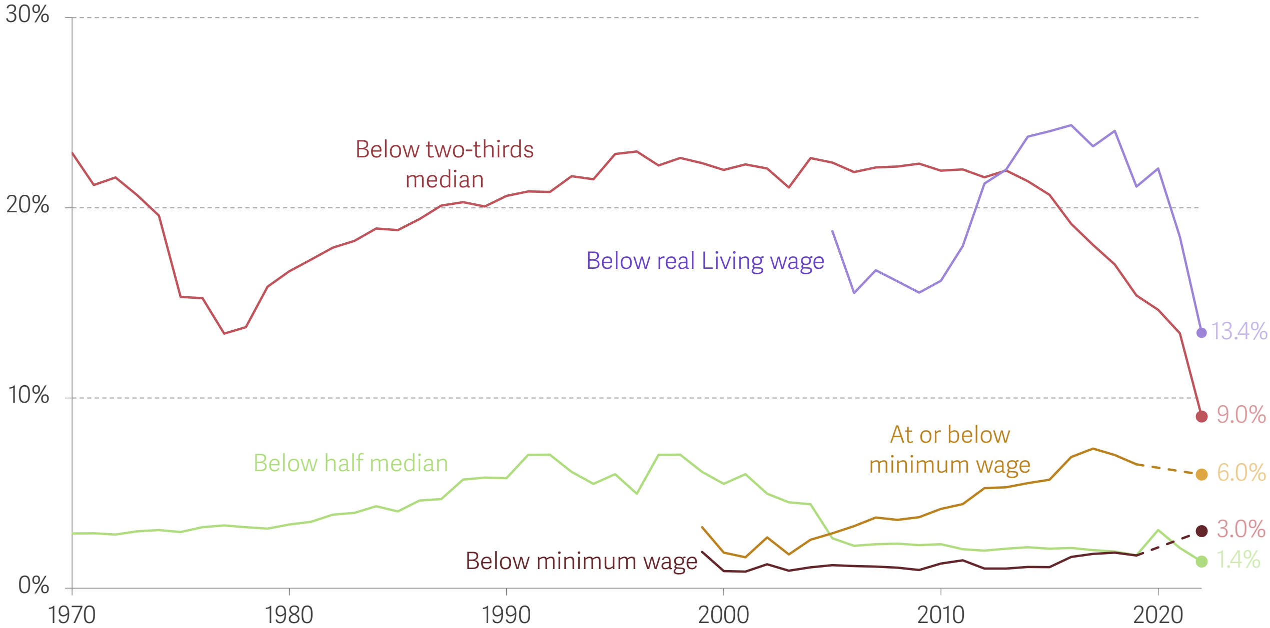
The introduction of the National Living Wage in 2015 (a higher minimum wage for employees aged 25 and above – extended in 2021 to workers age 23 and above) and its subsequent fast uprating have had a significant impact on the wages of low-paid workers. On a number of measures, the proportion of workers who are low paid is at its lowest ever level. These measures are set out in Figure 11.

The most commonly used measure of 'low pay' is a relative one – the proportion of workers whose hourly pay is below two-thirds of the median (the red line in Figure 11). On this headline measure, 9.0 per cent of employees in 2022 (totalling 2.5 million) were low paid, which is less than half the rate of 2015 (20.7 per cent, totalling 5.5 million). It is not surprising that this headline low pay measure is now low. Median hourly pay in 2022 was £14.72, putting the low pay threshold for this measure at £9.81, just 41p above £9.50, the level of the National Living Wage in 2022.

This recent rapid fall in the proportion of workers in low pay is the more remarkable for coming after a twenty-year period in which there was very little change. The low pay rate was not very different in 2015 (20.7 per cent) than it was in 1998 (22.6 per cent), the year before the minimum wage was introduced. In its early years the minimum wage was lower, and uprated relatively cautiously. This eroded the number of workers in 'extreme low pay' (earning less than half of the median - the light green line in Figure 11) from 7.0 per cent in 1998 to 2.2 per cent by 2006, since then this rate has been relatively steady. But it took the faster uprating of the National Living Wage era (from 2016 onwards) to bring down the number of workers in 'low' pay on the headline measure.

FIGURE 11: **The proportion of workers in low pay has fallen dramatically since 2015, while the number of workers earning the minimum wage has been stable**

Proportion of employees in different measures of low hourly pay: GB



NOTES: 'At or below minimum wage' defined as earning below the age-specific minimum wage plus 5p.
SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey Panel Dataset.

Another important way of measuring 'low pay' is the proportion of workers earning below the real Living Wage – the hourly wage rate calculated by the Living Wage Foundation, based on what someone working full-time needs to earn to be able to afford a minimally acceptable basket of goods and services. In April 2022, the real Living Wage was £9.90 in the UK (and £11.05 in London) and 13.4 per cent of workers were earning below this level. As with the headline low pay rate, this again is the lowest on record.

An encouraging aspect of this period of falling low pay coming from a rising minimum wage has been that the number of workers on the minimum wage has been steady. One of the concerns raised in 2015 when the National Living Wage was announced was that a higher minimum wage would lead to an ever-growing number of workers bunched on the wage floor.[30] This might have negative implications for workers' incentives to progress to better paid jobs, and could pose problems for firms' pay structures. But this hasn't happened. The number of workers at or below the wage floor rose did rise by 300,000 in 2016 (to 1.8 million, 6.9 per cent of employees) but has since been relatively stable, and in fact in the most recent 2022 data the number of workers on the wage floor fell to 1.7 million (6.0 per cent of employees). We showed in last year's Low Pay Britain report

30 L Gardiner & A Corlett, Low Pay Britain 2015, October 2015.

that this finding (of no additional bunching on the wage floor) holds even in low-paying sectors like retail and hospitality.

Less positively, the number of workers earning ***below*** the age-specific minimum wage has risen in the latest data, to more than half a million (545,000) employees, comprising 3.0 per cent of all employees. Minimum wage underpayment has been a problem since its inception, but this level of underpayment is much higher than the level in 2015 (297,000) before the introduction of the pre-National Living Wage.[31] This suggests that a higher minimum wage has led to greater non-compliance. This is unsurprising – employers have more to gain from underpayment when the minimum wage is higher – but it underlines the greater importance of proper enforcement as our wage floor becomes more ambitious.[32]

The rate of low pay has fallen particularly rapidly for women, and young workers

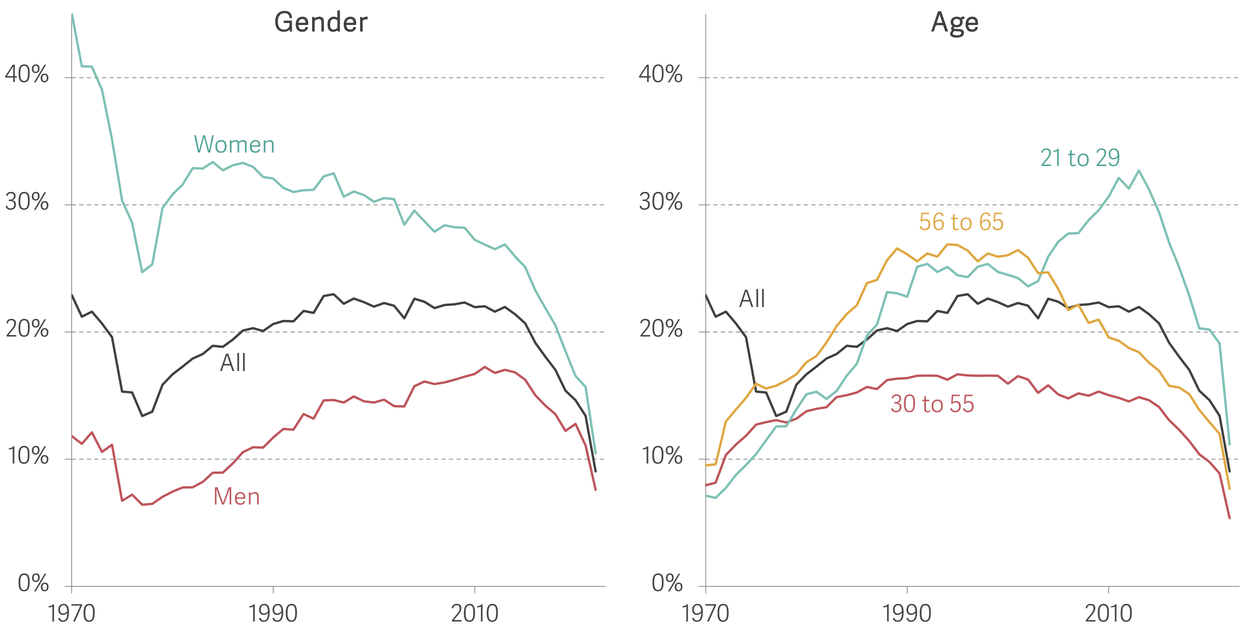
The fall in low pay (on the headline measure – hourly pay below two thirds of the median) has been particularly rapid for those groups of workers who have tended to have below-average rates of pay, such as women, and younger and older workers. Starting with gender, there has been a consistent fall in the low hourly pay gap between genders over the past 50 years. In 1970, almost half (45 per cent) of women earned a 'low' rate of hourly pay, compared to 12 per cent of men – a 33 percentage point gender pay gap. Twenty years on, in 1990, the rate of low pay among men was the same, but had fallen to 32 per cent among women, which meant the gender pay gap had come down by a third, although women were still close to three times as likely to be low paid. In 2022, the gender low pay gap was just 2.9 percentage points - 10.5 per cent among men and 7.6 per cent among women. This is set out in the left-hand panel of Figure 12. Finally, and also set out in Figure 12, low pay has in the National Living Wage era been falling among all age groups, but particularly rapidly for workers in their 20s.

31 This level of non-compliance is higher because it comes from the Annual Survey of Hours and Earnings, a survey of employers, who naturally have an incentive to hide any non-compliance. For this reason, the estimates of minimum wage underpayment from ASHE have tended to be regarded as a lower bound estimate.

32 At the end of April 2023 we will be publishing the conclusion of our three-year review into labour market enforcement, which will recommend, among other things, tougher penalties for minimum wage non-compliance. For our report on minimum wage non-compliance, please see: L Judge and A Stansbury, Under the wage floor: Exploring firms' incentives to comply with the minimum wage, January 2020.

FIGURE 12: **The fall in low pay has been particularly pronounced for women and young workers**

Proportion of employees in low hourly pay (earning below two-thirds of overall median), by gender and age group: GB



SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey Panel Dataset.

The minimum wage has upended the shape of hourly wage growth in the UK

In the low pay charts above, it's notable that the rate of low pay (both on the headline measure – below two-thirds of median hourly pay – but also on the 'extreme' low pay measure – below half of median hourly pay) was rising in the 1980s and 1990s. This was a period in which hourly pay inequality (along with overall income inequality) increased, as top earners pulled away from middle and low earners, and middle earners pulled away from the bottom. Annual hourly real pay growth averaged 3.2 per cent per year across the top quintile, compared to 2 per cent at the median, and 1.4 per cent across the bottom quintile.

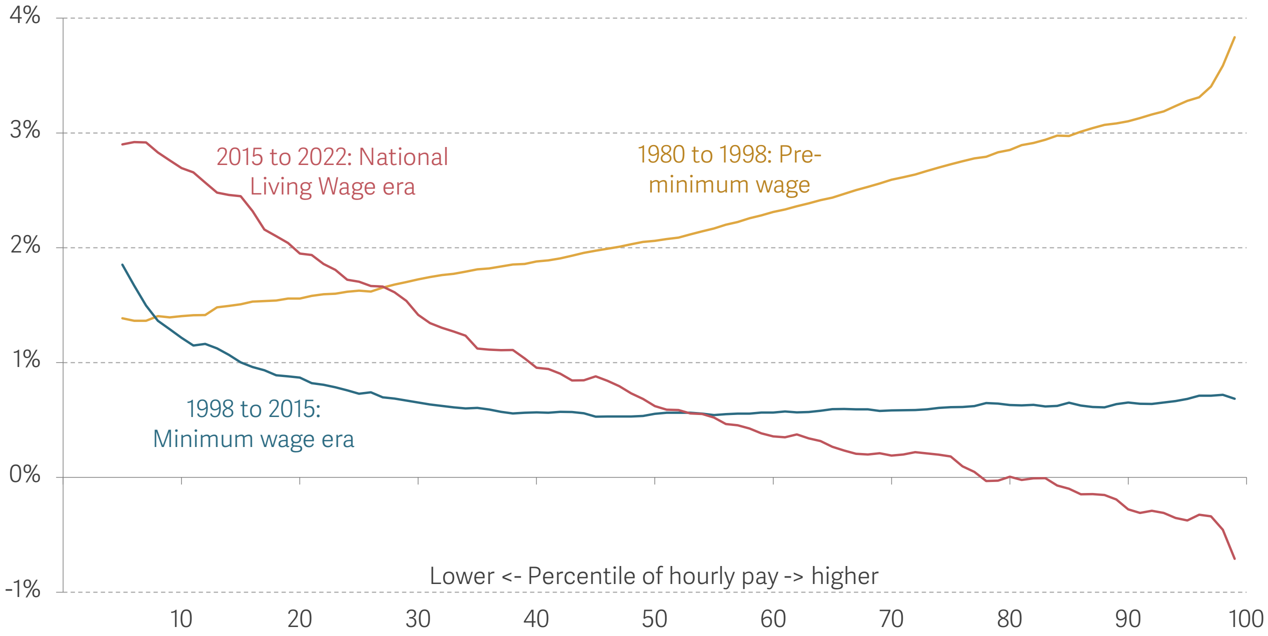
The introduction of the minimum wage in 1999 completely changed this pattern, driving stronger real wage growth at the bottom (1.4 per cent per year) than at the middle or top (0.6 per cent per year). It's notable that, despite the inversion of the pay growth pattern, the bottom did similarly in the minimum wage era as they had in the 1980s and 1990s, such was the scale of the slowdown in overall pay growth.

The National Living Wage era (from 2015) strengthened the bottom-heavy shape of pay growth. Real pay growth at the median was again 0.6 per cent per year across 2015 to

2022, but was 2.5 per cent per year across the bottom fifth of earners, and actually fell by 0.3 per cent per year across the top fifth of the pay distribution. These findings are set out in Figure 13, which plots the rate of real pay growth in annual terms across the pay distribution over these different periods.

FIGURE 13: **The minimum wage completely changed the pattern of wage growth in favour of low earners**

Annualised growth in real hourly pay across the distribution in selected periods: GB



NOTES: Pay adjusted for CPI inflation.
SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey Panel Dataset.

With the National Living Wage on a target path to rise to a 'bite' of two-thirds of median pay by 2024, hourly pay growth will continue to be significantly stronger at the bottom than at the middle. This month (April 2023), the National Living Wage rose to £10.42, a 9.7 per cent cash increase. The OBR expect CPI inflation to be 6.9 per cent in Q2 2023, which would mean minimum wage earners' pay will rise 2.6 per cent in real terms. By contrast, and drawing on the OBR's forecast again, the growth of average weekly pay is likely now only just recovering to zero.[33]

The UK's minimum wage is set to be one of the highest in the world by 2024

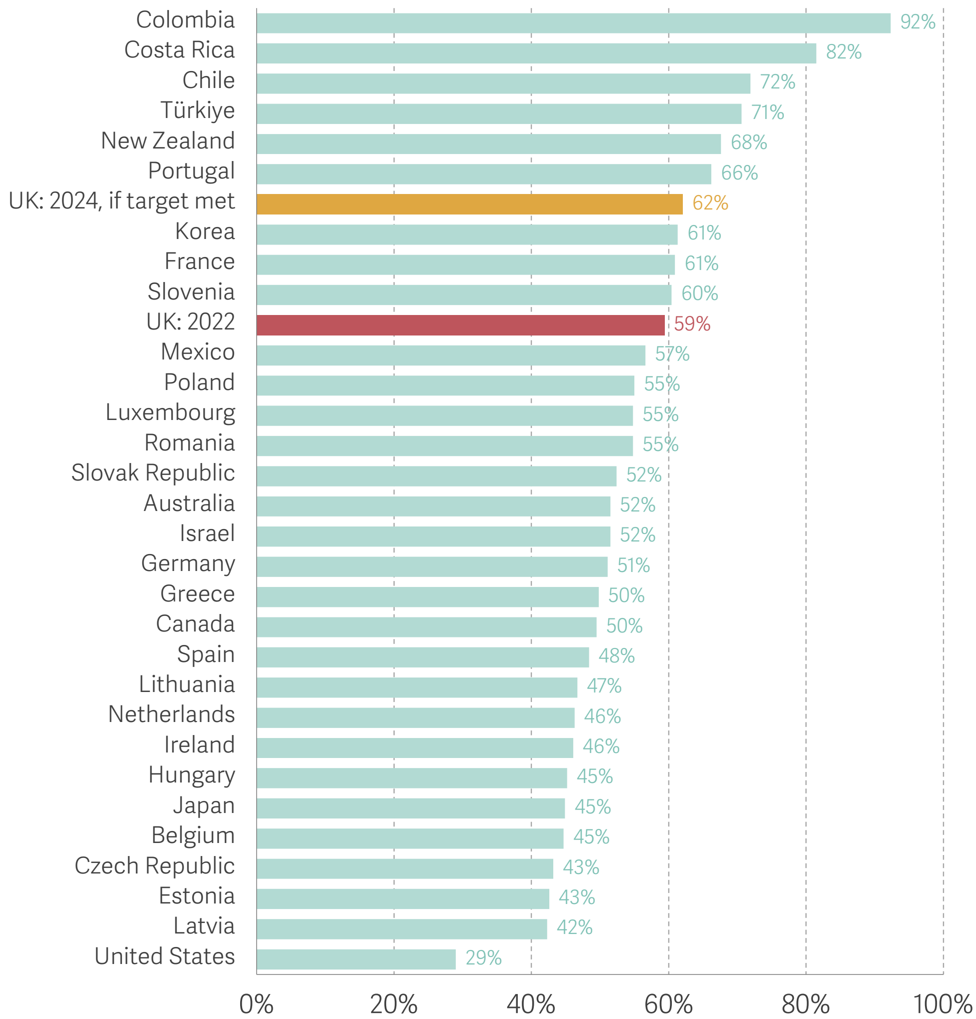
The rapid progress on the wage floor made since 2015 has meant that the UK now has one of the highest minimum wages (relative to median pay) in the world. The OECD measure the 'bite' of country's minimum wages relative to the median hourly pay among

33 These calculations are based on the OBR's March 2023 forecast for CPI and Average Weekly Earnings, and outturn data for those from ONS.

full-time workers rather than all workers. On this basis, in 2022 the bite of the UK minimum wage was 59 per cent, which (comparing to the OECD's 2021 data) puts the UK in 10th place among OECD countries, though if we limited the comparison to the richer countries, the UK's minimum wage would be in 5th place (behind New Zealand, Portugal, Korea and France). By 2024, if the target of reaching two-thirds of the median is met, the UK minimum wage bite relative to full-time workers is likely to rise to 62 per cent. This would put the UK's minimum wage above France and Korea's, if those countries don't make similarly large increases. The 2022 (red bar) and estimated 2024 (yellow bar) minimum wage bites are shown in Figure 14 below, alongside the bites in 2021 across OECD countries.

FIGURE 14: **The UK is on course to have one of the highest minimum wages in the world**

Minimum wage relative to median pay among full-time employees: OECD countries (2021) and UK (2022, and in 2024 if meet current target)



NOTES: Estimate for 2024 based on raising the minimum wage to two thirds of median hourly pay among workers aged 21 and above. This is converted into a bite relative to full-time workers, in accordance with how the OECD calculate its measure of the 'bite' of the minimum wage.
SOURCE: OECD, and Analysis of ONS, Annual Survey of Hours and Earnings.

The minimum wage is therefore an example of a labour market regulation where the UK has a high minimum compared to other countries, and where this level has been raised in an ambitious way. This has significantly strengthened wage growth for bottom earners, and has drastically curbed hourly wage inequality. And importantly, to date, a rising minimum wage has not had a significant negative impact on employment, so the minimum wage has been an unambiguously successful policy (Box 2 below provides a summary of the literature on the effects of the minimum wage on different outcomes).

There remain the caveats that the minimum wage doesn't benefit low-paid self-employed workers (who comprise a third of all workers on low hourly pay).[34], and the fact that it has a smaller impact on rates of low ***weekly*** pay, which is arguably what matters most from a living standards perspective. The more muted impact on low weekly pay is mainly because only a minority of workers in low weekly pay are on low hourly pay – many are on higher pay but work low hours.[35] Low weekly pay (defined, in keeping with low hourly pay, as earning less than two-thirds of median weekly pay) has fallen since 2015, but only by 4 percentage points (from 29.4 per cent of employees in 2015 to 25.2 per cent in 2022).[36]

The following section will show that the situation when it comes to other areas of labour market regulation, including sick pay and protection against hours and pay insecurity, is very different, with little or no progress made, and the level of minimum standards much lower in the UK than in other countries.

BOX 2: **What do we know about the impact of the minimum wage?**

A vast literature on minimum wages exists for people looking to understand its effects. Much of this has focused on whether minimum wages affect the employment of those whose pay is pushed up, but there are also many studies looking at impacts on prices, profits, productivity, and other outcomes. In this Box we provide a brief summary of this literature.

Negative effects on employment from minimum wages have so far, in the words of Alan Manning, proved elusive, going against what textbook economics would predict. [37] Arin Dube's important 2019 review concluded that estimates of the 'own wage elasticity' from the minimum wage to date (the extent to which workers' employment falls compared to the extent to which the minimum wage pushes up their

34 N Cominetti et al., Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
35 N Cominetti et al., Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
36 Source: RF analysis of ONS, Annual Survey of Hours and Earnings.
37 A Manning, The elusive employment effect of the minimum wage, Journal of Economic Perspectives, Winter 2021.

pay) are centred on zero. [38] This can also be seen in the descriptive data, with employment rates for the groups of workers more likely to earn the minimum wage (such as those with low qualifications) are similar to their historic levels.[39]

The literature gives a number of explanations. One is that employers have more wage bargaining power than workers, which means that absent a minimum wage workers' pay is low relative to the value they produce – the minimum wage is eating into this downward pressure. Another is that minimum wages 'pay for themselves', either by lowering other employment costs (such as by reducing worker turnover and hiring costs), or by raising productivity (including by inducing more effort from workers). At the level of the whole economy, evidence from Germany has also found that the minimum wage can have a positive effect on productivity by pushing the reallocation of workers away from smaller less productive firms, and towards larger and more productive firms and sectors. [40]

It is also possible to avoid disemployment effects if employers adjust to higher wage costs through other channels, and there is indeed evidence of employers raising prices and accepting lower profits in response to higher minimum wages. The particular margin of adjustment will depend on the market a company operates in (firms in tradeable sectors are less likely to be able to raise prices in response to minimum wage hikes) and how easy it is for the firm to change its production processes (i.e. to use more capital and less labour).

All of the above being said, most economists would agree that at some point minimum wages are likely to have a negative effect on employment. And this becomes more likely as the minimum wage rises – empirical studies can of course only tell us about the impacts of past (lower) minimum wage levels, and leave the impact of higher minimum wage levels uncertain. And it's notable that the most recent significant study of employment effects in the UK – a 2021 study by the Institute of Fiscal Studies, which looked at the years following the introduction of the National Living Wage – did identify a negative employment effect, with a central estimate of an own wage elasticity of -0.17. [41]

38 A Dube, Impacts of minimum wages: review of the international evidence, November 2019.
39 Low Pay Commission, Low Pay Commission Report 2022, January 2023.
40 C Dustmann et al., Reallocation Effects of the Minimum Wage, 2020.
41 Cribb et al, The impact of the National Living Wage on wages, employment and household incomes, December 2021.

Section 4

Minimum standards beyond the minimum wage

Pay is clearly important for quality work. But other aspects of work like security, autonomy and dignity clearly matter a lot as well. Half of private-sector employees say they would be willing to turn down a pay rise for a range of improvements – some boil down to working less for the same pay (including workers who wanted more holiday, or to work fewer hours) but some are completely separate from pay, including workers who wanted work to be more meaningful, or to be treated with more dignity at work. In this context, we assess the level of the UK's minimum standards when it comes to some aspects of work beyond pay, and, in particular, areas where regulation can set a minimum floor. The overall finding is that the UK's minimum standards are in many areas low compared to other countries, and that this contributes to inequality because high earners tend to be offered occupational entitlements that far exceed the legal minimum.

We show that the UK's minimum sick pay rate is the lowest among all OECD countries (aside from the United States and South Korea which offer no statutory sick pay, or SSP). This low rate mainly affects the lowest income (private-sector) workers with four-in-ten telling us in March 2023 they'd expect to receive SSP (rather than being paid as normal), compared to only one-in-twenty of the highest income survey respondents (those earning above £50,000). Beyond sick pay, the UK offers fewer days' holiday than other comparable rich countries, and maternity pay in the UK offers a much lower replacement rate. Our survey evidence found that well over twice the share of the lowest-paid women aged under 45 would expect to rely on statutory maternity pay, or not be paid at all, compared to the highest-paid women.

In the previous section we showed just how much progress has been made on reducing low pay, largely thanks to the success of a higher minimum wage. But as we have already discussed in Section 2, there is much more to work than just pay. So in this section we assess minimum standards when it comes to other areas of labour market regulation, namely: sick pay, holiday pay, maternity pay and protection against hours and pay insecurity.

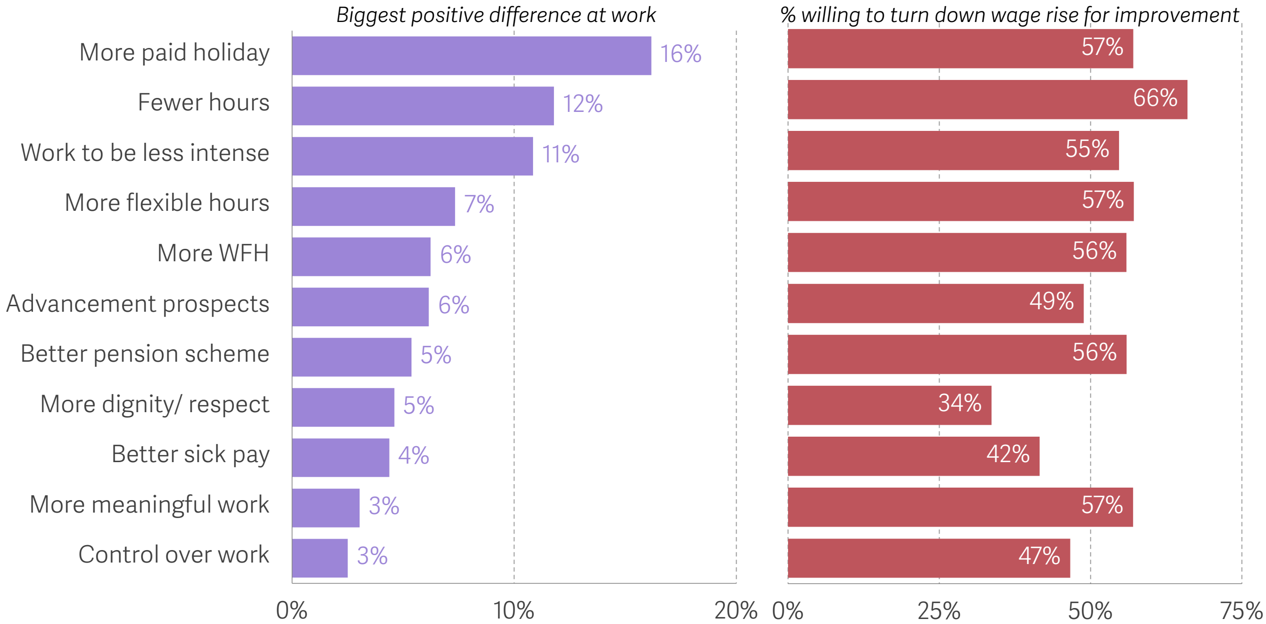
Pay isn't the only thing that matters to workers – conditions, hours, and protections are all important too

Pay clearly matters, but when we asked private-sector workers in March 2023 which features of work (aside from pay) would make the biggest positive difference at work, we can see that other non-pay aspects are important too (see the left-hand panel of Figure 15). The two features of work that were selected by the most respondents are related to pay, in that they involve working less without necessarily losing pay. These were more paid holidays (selected by 16 per cent of respondents), and to work fewer hours (12 per cent). But there were several commonly-chosen improvements which were quite different to pay. For 11 per cent, lower work intensity (chosen by 11 per cent) was the most important improvement. Other notable choices were being treated by more dignity and respect (chosen by 5 per cent) and more meaningful work (chosen by 3 per cent).

We also asked workers if they be willing to turn down a wage rise for the improvement they selected (with pay rise options from 1 to 10 per cent). As shown in the right-hand panel of Figure 15, more flexible work, better sick pay, as well as fewer hours or more pail holiday are all dimensions for which at least half of workers would be willing to turn down a pay rise (with some even willing to turn down a 10 per cent pay rise).

FIGURE 15: **Workers would be willing to trade-off pay rises for better quality work**

Proportion of employees reporting which non-pay feature would make the biggest positive difference at work (left-side) and for that selected feature what share would be willing to turn down a wage rise for that improvement (right-side): UK, 10-14 March 2023



NOTES: Base is all private-sector employees (n=2,011). Only includes responses where sample size is at least 50. More paid holiday (n=322), Fewer hours (n=241), Work to be less intense (n=222), More flexible hours (n=149), More WFH (n=126), Advancement prospects (n=125), Better pension scheme (n=107), More dignity/ respect (n=94), Better sick pay (n=89), More meaningful work (n=62) and Control over work (n=51).
SOURCE: Analysis of YouGov, March 2023 survey.

Splitting these results by income shows a similar picture but strikingly lower-paid workers put much weight on higher sick pay. If we segment the left-hand panel of Figure 15 into those with an individual income above and below £25,000T, the top four most popular choices are identical (albeit in a slightly different order): more paid holiday, work to be less intense, more flexible hours and fewer hours. There are, however, some differences: for example, over twice the share of the lower -income group (7 per cent) chose better sick pay as the non-pay feature of work that would make the biggest difference compared to than the higher-income group (3 per cent). Starting with sick pay, then, we next assess some of these non-pay areas of work which are clearly important for workers and where it is possible to set higher minimum standards.

It is noteworthy that Splitting these results by income when we segment the left-hand panel of Figure 15 into those with an individual income above and below £25,000, the results remain remarkably similar. The top four most popular choices are identical (albeit in a slightly different order): more paid holiday, work to be less intense, more flexible hours and fewer hours. There are, however, some differences: for example, over twice the share of the lower -income group (7 per cent) chose better sick pay as the non-pay feature of work that would make the biggest difference compared to than the higher -income group (3 per cent). Starting with sick pay, then, we next assess some of these non-pay areas of work which are clearly important for workers and that policy is amenable to.[42]

UK Statutory Sick Pay offers very little insurance, predominantly affecting low-paid workers

UK employees are legally entitled to Statutory Sick Pay (SSP), which is zero pay for the first three days of sickness absence and a flat rate of £109.40 per week after the fourth day.[43] Employers can, however, offer a more generous arrangement than this statutory minimum if they want to (which is often referred to as occupational sick pay). To be covered for SSP workers must be classed as an employee or agency worker and earn at least the Lower Earnings Limit (LEL), which is £123 a week.

Figure 16 shows that the UK's SSP arrangement is very low by international standards. Sick pay only covers around 11 per cent of a full-time private-sector average employee's wages in the first four weeks of sickness – compared to the OECD median of a 64 per cent replacement rate.[44] This replacement rate for sick workers is only higher than South Korea or the United States (at a federal level) – the only OECD or G20 countries which don't currently offer statutory sick pay. Indeed, the UK is one of only a handful of European countries that doesn't have compulsory earnings-related payments; and the only OECD country in which employers provide a fixed amount from the start of a spell of sickness. Many other European countries either pay full wages (including the likes of Iceland, Germany, Austria, Luxembourg) or a percentage of earnings between 50 and 90 per cent for an initial period.[45] Most other European and OECD countries also provide sick pay from day one and do not impose a waiting period for eligible employees.[46] The UK's 'waiting period' of 3 days is, however, in line with the 3-day maximum recommended by the ILO convention.

The UK's SSP system is relatively unique in that the low flat rate of sick pay is funded solely by employers for a period of up to 28 weeks. Most OECD countries only have

42 It is worth noting that we only scratch the surface when it comes to employment and overall income protection measures. We will be exploring the adequacy of the overall welfare state and other forms of income protection in separate Economy 2030 papers. For a comprehensive discussion of UK employment insurance see: A Harrop, H Reed & E Sacares, In time of need: Building employment insurance for all, Fabian Society, March 2023.

43 During the coronavirus crisis SSP was made available from the first day of sickness and for workers forced to self-isolate. On the 24 March 2022 these rules no longer applied. For a more detailed discussion of SSP during the crisis, see: M Brewer & M Gustafsson, Time out: Reforming Statutory Sick Pay to support the Covid-19 recovery phase, Resolution Foundation, December 2020.

44 These OECD figures are from 2019. In 2019 SSP in the UK was £94.25 a week and the average weekly wage for a full-time private-sector worker was £706. If a worker on this wage took four weeks of sickness absence they would receive £320.45 in SSP (£94.25 x (17/5)) compared to their usual wage over four weeks of £2,824 (£706 x 4). So, SSP would only replace 11 per cent (£320.45 / £2,824) of the average full-time private-sector workers' wage. Source: Analysis of ONS, Annual Survey of Hours and Earnings.

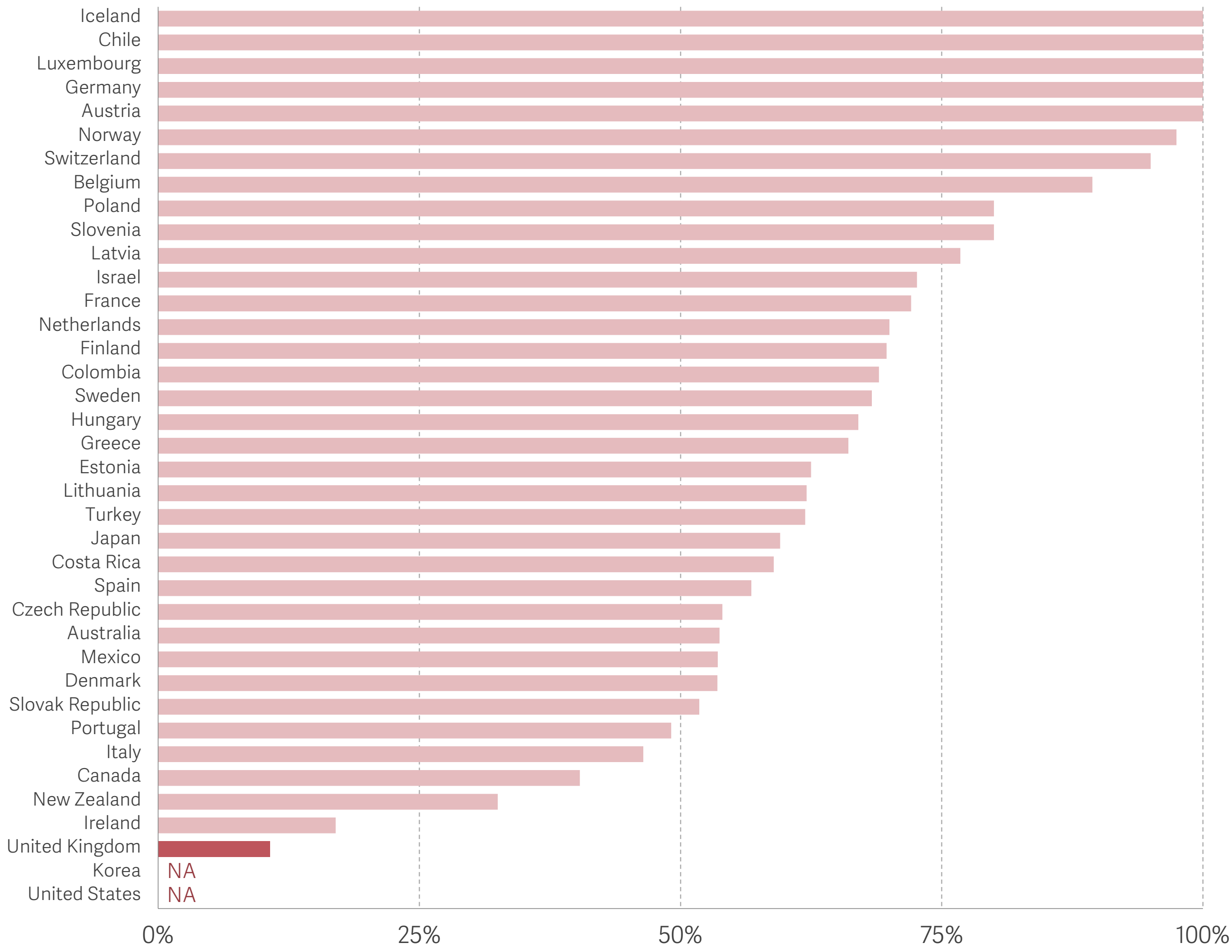
45 Denmark and Australia offer fixed rate sickness benefits to employees when employer-provided sick (that fully replaces earnings) has come to an end.

46 OECD (forthcoming), Disability, Work and Inclusion in Korea: Towards equitable and adequate social protection for sick workers, OECD Publishing, Paris.

statutory sick pay periods covered by the employers that last between 5 and 15 days (after which point sickness benefits tend to come into play).[47] This helps explain why in an initial two-week period of absence three-quarters of income replacement is paid for by employers across all OECD countries. But over a longer period of 12 weeks, on average, two-thirds comes from the state with the remaining one-third from employers.[48]

FIGURE 16: **Statutory Sick Pay in the UK offers a very low level of income protection compared to the systems in other OECD countries**

Replacement rate of statutory sick pay or equivalent system for the first four weeks of sickness: OECD countries, 2019



NOTES: The results refer to an eligible full-time private-sector employee who is married, has no kids, is aged 40, is earning an average wage and working with the same employer for one year who cannot work from home.
SOURCE: Analysis of OECD.

In the UK, the requirement to earn above the LEL excludes close to 1.6 million low-paid employees (1.3 million of which are in the private-sector) who are ineligible for this

47 Organisation for Economic Co-operation and Development, Paid sick leave to protect income, health and jobs through the COVID-19 crisis, OECD Policy Responses to Coronavirus (COVID-19), July 2020.
48 OECD (forthcoming), Disability, Work and Inclusion in Korea: Towards equitable and adequate social protection for sick workers, OECD Publishing, Paris.

income replacement.[49] When we asked private-sector employees what their expected pay would be if they took a week off through sickness, one-in-ten (12 per cent) of low-income workers (earning below £20,000) expected no sick pay compared to one-in-twenty of high-income workers (in this case defined as earnings above £60,000).

We also find that the lowest-paid workers are most reliant on the UK's internationally low rate of sick pay. As Figure 17 highlights, four-in-ten private-sector employees earning below £20,000 only expect to receive SSP if they have to take a week off work through illness, compared to fewer than a tenth of those earning above £50,000.

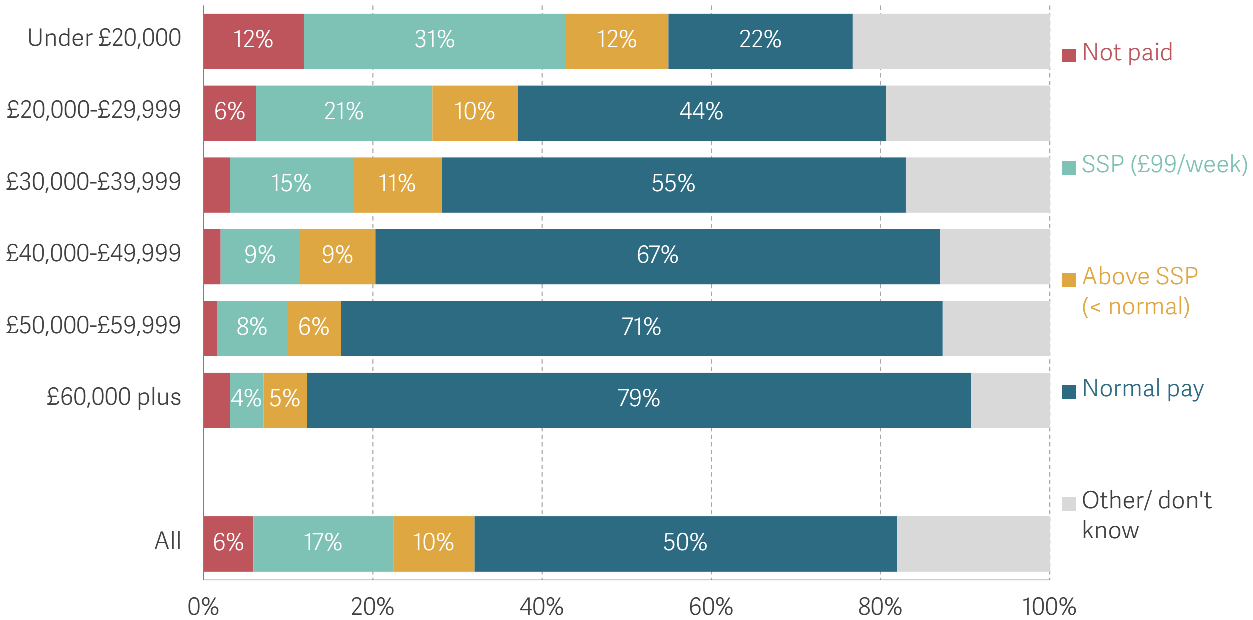
On the flipside, rich workers can expect a more generous deal from their employers when it comes to sick pay.[50] As Figure 17 shows almost quadruple the share of the highest-income workers (79 per cent) expect to get their normal rate of pay when sick in comparison to the lowest-income workers (22 per cent). Even though gross income (which for most workers is wages and salaries) is not the be all and end all, higher incomes appear to be associated with other non-pay work benefits like more generous sick pay.

Overall, SSP in the UK offers very little insurance against sickness, particularly when compared to other rich countries, and as we have shown this mainly affects low-paid workers. These views are recognised by employers, too, with almost two-thirds (62 per cent) of employers surveyed by the Chartered Institute of Personnel and Development in 2021 agreeing that the SSP rate is too low and should be increased.[51]

49 Source: Analysis of ONS, Labour Force Survey.
50 These results are similar to other UK-based surveys. See: Trades Union Congress, Sick pay that works: TUC report on the urgent need for reform, February 2021.
51 Chartered Institute of Personnel and Development, What should an effective sick pay system look like? Recommendations for ensuring a financial safety net for workers during illness, December 2021.

FIGURE 17: **Low-income workers receive a poor version of sick pay compared to high-income workers**

Expected pay if employee took a week off work through sickness, by gross individual income band: UK, 10-14 March 2023



NOTES: Base is all private-sector employees (n=2,011). All also includes those who didn't give an income figure. Under £20,000 (n=330), £20,000-£29,999 (n=477), £30,000-£39,999 (n=340), £40,000-£49,000 (n=238), £50,000-£59,000 (n=144) and £60,000 plus (n=223). The figures here combine answers to multiple survey questions and have been independently analysed by the Resolution Foundation.
SOURCE: Analysis of YouGov, March 2023 survey.

UK minimum paid holiday also lags behind our peers but many UK workers - especially those in high-paid jobs – get more

UK workers are legally entitled to at least 28 days paid annual leave a year (including bank holidays, which, if taken, leaves 20 remaining days per year). As we have already shown, there is unsurprisingly, a desire among workers for more paid holidays, with 57 per cent willing to turn down a pay rise to gain more holiday. And comparisons with other rich nations suggest that British workers have reason to expect more. The statutory minimum number of holiday days in the UK is three days below the OECD median (31); and the UK ranks 27th out of 36 OECD countries when it comes to the generosity of statutory annual leave. Countries like Austria (38 days), France (36 days), Spain (36 days), Luxembourg (35 days) and Sweden (35 days) have far more generous holiday entitlements (including public holidays) than the UK.[52]

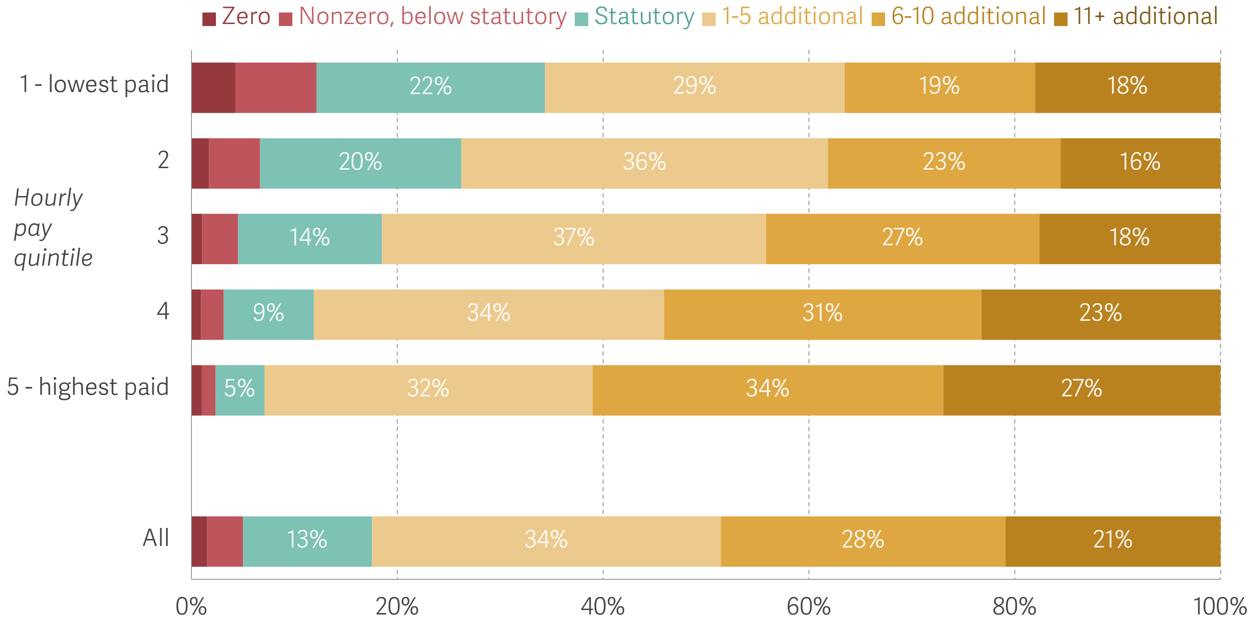
Analysis of the UK Labour Force Survey (LFS) does, however, show that most workers (82 per cent) get more than the UK's minimum holiday entitlement (as shown in Figure 18). But a much higher share of the highest-paid quintile of employees (93 per cent) receive a more generous version of annual leave when compared to the lowest-paid quintile of

52 Source: Table g5-4 in: OECD Employment Outlook 2021, July 2021.

employees (66 per cent). Not only that, the lowest-paid employees are much more likely to report either no annual leave or something below the statutory minimum (both of which are labour-market violations) when compared to the highest-paid employees (12 per cent versus 2 per cent of employees, respectively). In short, the majority of workers in all pay categories are above the 'floor' when it comes to annual-leave days, but some low-paid workers experience a rough deal – particularly those being denied their statutory rights.[53]

FIGURE 18: **Most workers get above the statutory minimum holiday entitlement**

Number of days' annual leave among full-time employees, by hourly pay quintile: UK, 2005-2021



NOTES: Considers the larger number of bank holidays in Scotland (10) and Northern Ireland (9) compared to rest of UK (8).
SOURCE: Analysis of ONS, Labour Force Survey.

Like sick pay, Statutory Maternity Pay is low in the UK, mainly affecting low-paid workers

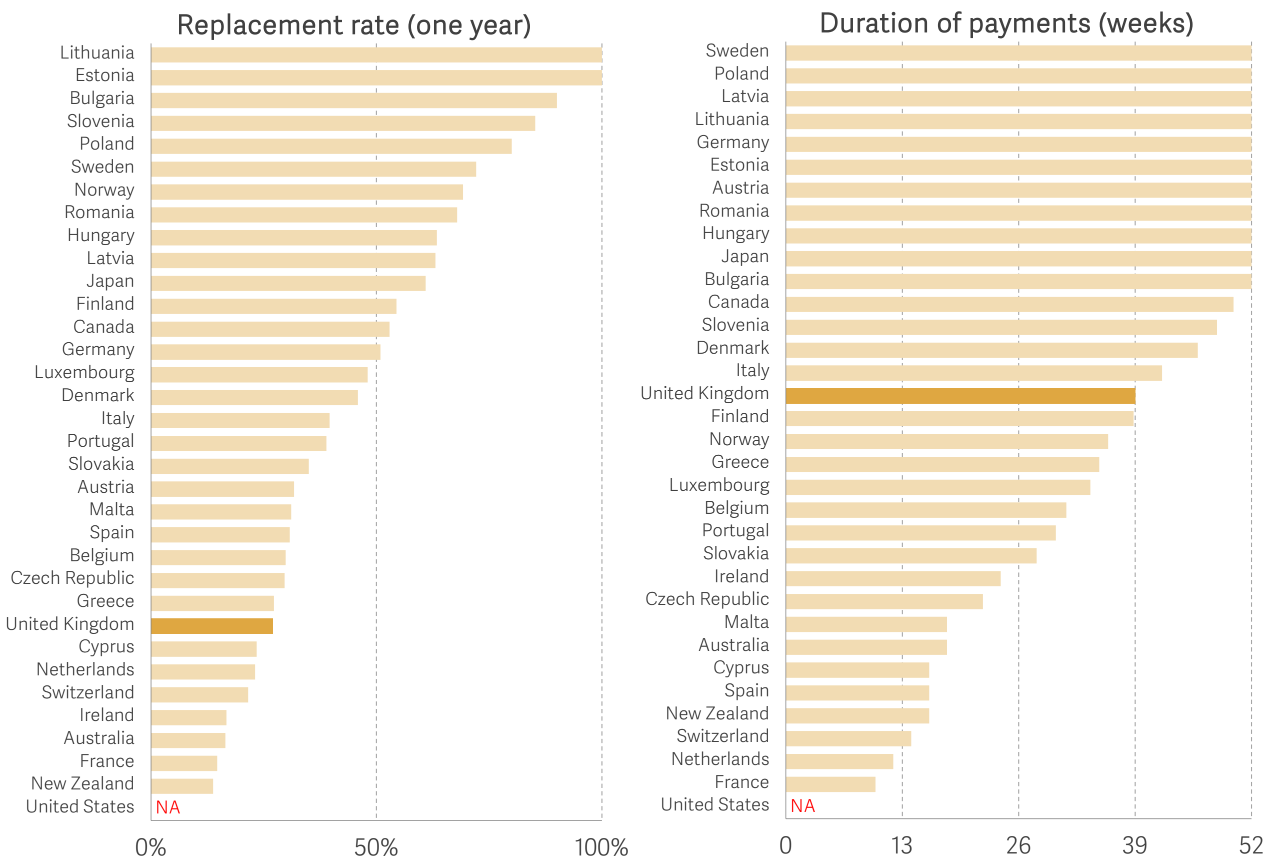
In the UK, female employees are entitled to 39 weeks of Statutory Maternity Pay (SMP), which is 90 per cent of their normal pay for the first 6 weeks dropping to a flat rate of £172.48 per week for the next 33 weeks. Most other European and OECD countries offer more generous maternity pay which generally involve earnings-related payments for most of the statutory leave duration. According to the OECD, for a woman earning average pay in the private-sector, SMP would replace 27 per cent of earnings over a one-year maternity pay leave, compared to the median replacement rate of 40 per cent

53 We discuss this labour market violation i.e. receiving less than the statutory minimum holiday entitlement in more detail here: N Cominetti, C McCurdy & H Slaughter, Low Pay Britain 2021, Resolution Foundation, June 2021.

across OECD countries (as shown in Figure 19). This is in stark contrast to some Eastern European and Scandinavian countries like Estonia (100 per cent). Lithuania (100 per cent), Poland (80 per cent), Sweden (72 per cent) and Norway (69 per cent) that replace well over of half of female employees' pay in the year after birth. In fact, there are 14 OECD countries where the replacement rate is above 50 per cent.

FIGURE 19: **The UK's Statutory Maternity Pay is relatively ungenerous compared to other rich countries**

Average wage replacement (if on statutory maternity leave for one year) and duration of statutory maternity payments in OECD countries, 2022

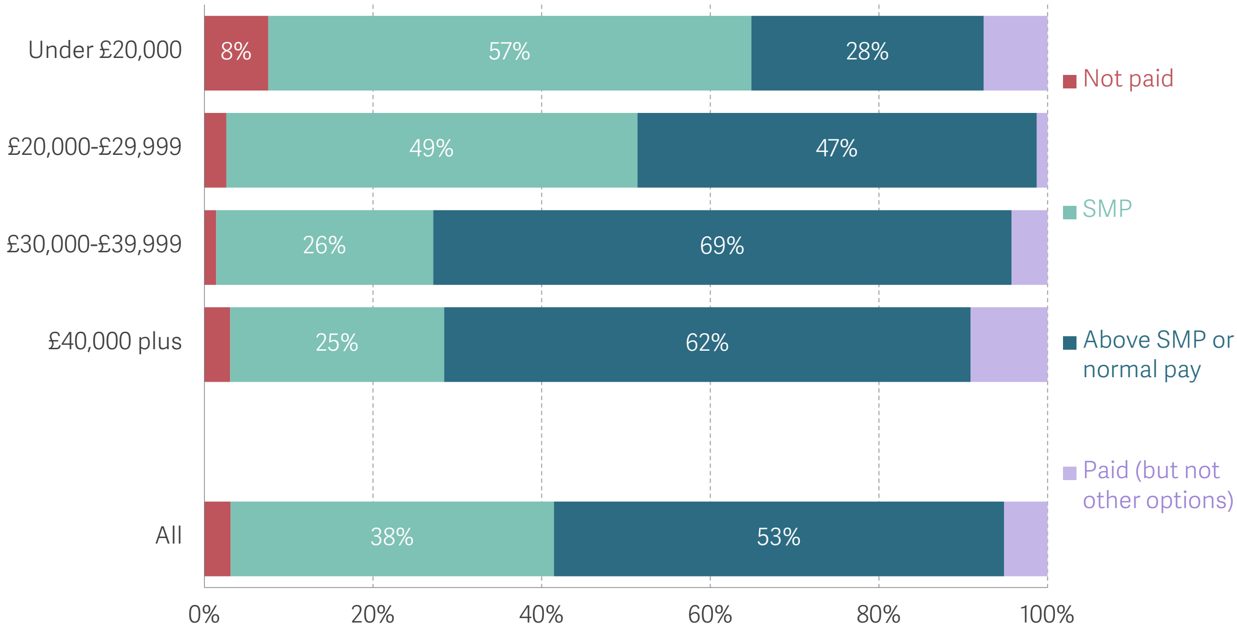


SOURCE: Analysis of Table PF2.1 in OECD, Family Database.

So, the UK's SMP is relatively ungenerous when compared to other rich countries, but how does the experience of SMP differ across the income distribution? As with sick pay and holiday days, it is the lowest-paid workers that receive this entitlement. In our survey we asked female employees if they had a child now, and wanted to take nine months off, what would be their expected pay. As Figure 20 shows, two-thirds (65 per cent) of female workers under the age of 45 earning below £20,000 expect to either receive SMP, or not be paid at all, compared to 28 per cent of female workers with an income over £40,000.

FIGURE 20: **Low income female employees are reliant on Statutory Maternity Pay**

Expected pay if a female employee had a child now and wanted to take 9 months off, by gross individual income band: UK, 10-14 March 2023



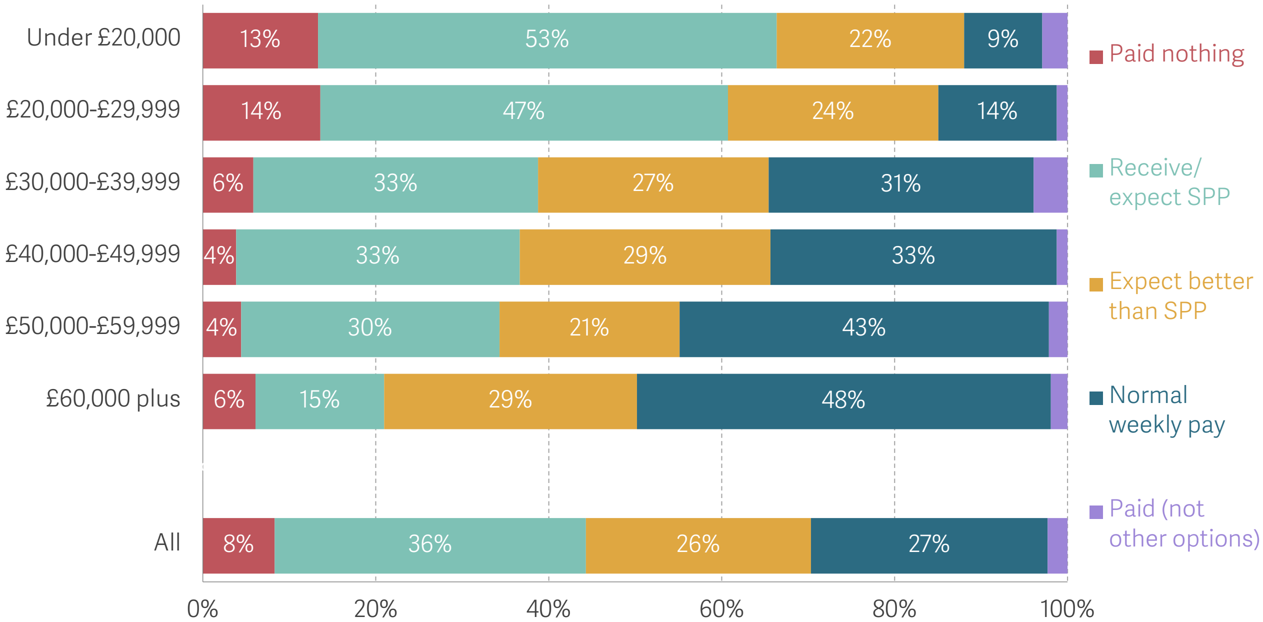
NOTES: Base is all private-sector female employees under 45 (n=327) All also includes those who didn't give an income figure. Don't knows are excluded. Under £20,000 (n=53), £20,000-£29,999 (n=75), £30,000-£39,999 (n=69), £40,000 plus (n=98). The figures here combine answers to multiple survey questions and have been independently analysed by the Resolution Foundation.
SOURCE: Analysis of YouGov, March 2023 survey.

This income gradient is also clear when we look at the response from male employees in our survey who were asked what their expected pay would be if they took two weeks off after having a child.[54] Some 13 per cent of male employees with gross incomes below £20,000 expect not to receive their statutory right to paternity pay, with a further 14 per cent of men on incomes between £20,000 and £29,999 also expressing the same concern (compared to 8 per cent for all private-sector male employees). Around half of all men in the two lowest income groups expect to receive Statutory Paternity Pay, which is over three times the share of men in the highest income group.

54 After childbirth, male employees are legally entitled to 2 weeks' Statutory Paternity Pay, which is £172.48 a week or 90 per cent of their normal pay, whichever is lower.

FIGURE 21: **There is a clear income gradient when it comes to Statutory Paternity Pay**

Expected pay if a male employee had a child now and wanted to take two weeks off, by gross individual income band: UK, 10-14 March 2023



NOTES: Base is all private-sector male employees (n=1,056). All also includes those who didn't give an income figure. Under £20,000 (n=102), £20,000-£29,999 (n=238), £30,000-£39,999 (n=196), £40,000-£49,999 (n=155), £50,000-£59,999 (n=89) and £60,000 plus (n=154).
SOURCE: Analysis of YouGov, March 2023 survey.

Overall, there is a clear case for trying to match impetus behind raising the minimum wage floor to other areas of labour market regulation. The most obvious example in this context is sick pay, which is low by international standards, adversely affecting low-paid workers. We've also had little progress on protection against hours and pay insecurity – both of which are most concentrated in the lowest paid jobs.[55] And as we have shown in Section 2, these types of insecurity, for example when it comes to hours worked, can have particularly pernicious effects on wellbeing and happiness. In the next section we set out a policy agenda for improving low-paid work through higher minimum standards which would give workers in that group the respect and dignity they deserve.

55 N Cominetti et al., Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.

Section 5

Improving low-paid work through higher minimum standards

The UK needs a new policy agenda for improving low-paid work. This should of course include more progress on the minimum wage. But other priority areas for urgent action include a better sick pay system, stronger protections against insecurity, and also areas such as annual leave entitlements and parental pay, where the UK lags other countries.

On the minimum wage, the Government must decide what remit to set the Low Pay Commission after 2024, when the current target of two-thirds of median hourly pay is expected to be reached. The Government should set a new target path which continues the recent pace of uprating, potentially reaching a 'bite' of 73 per cent of median hourly pay by 2029. But policy makers need to think harder about a framework for deciding when to stop uprating, which requires a difficult judgement about the relative weight to place on wages and employment. Specifically, a new minimum wage target should be more explicit about whether to accept somewhat lower employment as a price, and if so how much. This will make the Low Pay Commission's job much easier when it comes to weighing up the evidence it gathers.

Beyond the minimum wage, priority areas for reform include making the UK's Statutory Sick Pay system much more generous (we suggest moving to a system based on 65 per cent earnings replacement), and offering workers on unpredictable hours more control. There may also be a case for improving the UK's floor when it comes to parental pay, and the minimum level of holiday entitlement. All of these measures would add to labour costs, and so raising standards on multiple fronts should be overseen by the Low Pay Commission, who can monitor impact and advise Government.

At the start of this report we argued that a new economic strategy for the UK should have better work at its centre, and that direct intervention through higher minimum standards on pay and conditions is an important way of achieving that, especially outside the big cities where the growth of new jobs in tradeable or high-value services is unlikely. The UK already has one very important part of this strategy right – an ambitious minimum wage policy which has had a transformative impact on the wages of the lowest paid workers. However, as we argued in Sections 2 and 4, there is more to good work than pay, and there are important areas where standards in the UK are low compared to other countries and where there has been little progress, with the result that too many low-paid workers lack security and dignity at work. In this section we set out what should be the priority areas for reform.

Progress on the minimum wage should continue, with a new target after 2024 based on a similar pace of uprating

Section 3 showed the significant impact that the minimum wage has had on the wages of low earners, one that has strengthened in the National Living Wage era. To date, most of the empirical evidence suggests this hasn't come at the cost of substantial job losses (although a recent study by the Institute for Fiscal Studies did find a small negative employment effect).[56] The current minimum wage target – to reach two-thirds of median hourly pay – is due to be met in 2024. This means the Government will have to decide this year what policy to set after this point.

The Government should continue to set minimum wage policy in the same vein, namely it should set an ambitious target relative to median hourly pay, and task the Low Pay Commission with reaching this target while monitoring the effects of rate rises closely. To some degree the target level is arbitrary. What really matters is the pace at which the minimum wage is raised (relative to typical pay), and a framework for deciding when to stop uprating. We discuss each of these in turn.

There is no empirical evidence to say what the 'right' pace of uprating is, but there are two reasons why overly fast uprating might be risky. First, it could make it harder for employers to adjust in a positive way, for example by investing in training or equipment to boost productivity and make up for higher costs, which could in turn make a negative employment effect more likely. Second, faster uprating increases the size of any 'overshoot' and the length of time required to get back to the 'right' level. We can only gather evidence on the effect of a minimum wage uprating after the fact. And assuming policy makers plan to uprate until sufficient negative effects are observed, this will mean that the minimum wage will already be 'too high' when these effects are observed. In

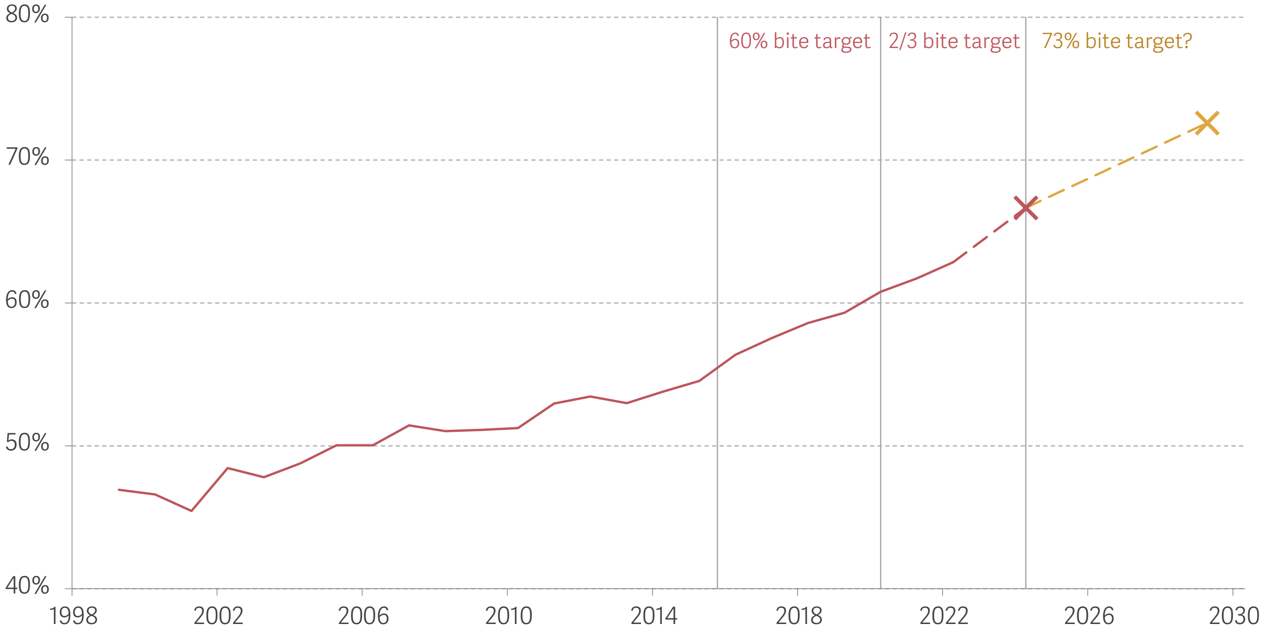
56 J Cribb et al., The impact of the National Living Wage on wages, employment and household incomes, The Institute for Fiscal Studies, December 2021.

practice, policy makers are unlikely to lower the minimum wage in cash terms – and may also be reluctant to lower it in real terms – which means rowing backwards on uprating would come from holding the nominal or real value of the minimum wage constant and waiting for wage growth to erode its relative value. We explored this issue in more detail in our 2019 Low Pay Britain report.[57] Uprating at the National Living Wage era (2015-2022) average pace – that is, raising the bite by 1.2 percentage points per year – would mean it would normally be possible to 'undo' a one-year overshoot in a single year by freezing in nominal terms (given average nominal wage growth from 2008-2022 of 2.4 per cent). It would of course take substantially longer to undo any minimum wage rises if freezing in real terms, as real wage growth has been roughly zero since 2008.

For both these reasons, it seems sensible to not go faster than the recent 1.2 percentage points of median pay per year. Sticking to this pace, policy makers could set a target of 73 per cent in 2029 (i.e. by the likely the end of the next parliament). This target path is illustrated in Figure 22. On current wage growth forecasts that would mean reaching a value of £13.12 in 2029, worth £25,660 per year to someone working full-time.[58]

FIGURE 22: **Continuing to increase the minimum wage at its recent pace implies a 'bite' target of 73 per cent by 2029 (the end of the next Parliament)**

'Bite' of minimum wage (value relative to median hourly pay), outturn, current target path, and future target path if minimum wage uprating continues at recent pace: UK



NOTES: Potential target path based on continuation of pace of increase in 'bite' (value of minimum wage relative to median hourly pay of target group) from 2016 to 2022 of 1.2 percentage points per year.
SOURCE: Analysis of Low Pay Commission, 2022 report.

57 N Cominetti, K Henehan & S Clarke, Low Pay Britain 2019, Resolution Foundation, May 2019.

58 Based on comparing 72.6 per cent bite against current median pay (derived from OBR project of NLW in 2024 and published target bite of two-thirds of the median), uprated in line with OBR forecast of average hourly pay growth (forecast post 2027 based on extending OBR's forecast of growth in 2027). Source: OBR, Economic and Fiscal Outlook, March 2023.

It's important to stress, however, that these target levels are only functions of the uprating pace – there is no guarantee ahead of the fact that these levels would be reached. What matters for that is a framework for deciding 'how high is too high'.

Policy makers need a clear framework for knowing when to stop uprating – this may involve explicitly accepting a reduction in employment

As the UK's minimum wage rises, and reaches or passes the international frontier, the chance of minimum wage upratings causing disemployment effects becomes higher, and it becomes more important to have a clear framework for thinking about what the right level of the minimum wage is, and when to stop uprating. At the moment, the Government's framework for deciding when to stop uprating is vague.

The Government's current remit to the Low Pay Commission asks it to raise the minimum wage in line with the target, but to stop 'if the economic evidence warrants it', and to apply an 'emergency brake' on uprating if doing so would pose 'significant risks to [lowest-paid workers'] employment prospects'. Similarly, the youth rates are to be raised 'as high as possible without damaging the employment prospects of each group'.[59]

The problem is the remit doesn't say what 'significant' means, which makes it hard to use to set policy. This isn't a problem while estimates of disemployment effects are centred around zero (as Arin Dube concluded in his 2019 review[60]), and there is no decision to be made. But at some point, if the minimum wage keeps rising, the policy will eventually start to create larger disemployment effects, at which point the Low Pay Commission will need to know whether these justify pulling the 'emergency brake' and stopping uprating. That's not to say this is an easy question to answer. It requires a judgement about the relative importance of employment and wages. Here we offer some initial thoughts to help ground this debate.

We can start by ruling out the two most extreme positions. One (and a possible interpretation of the Government's language of 'no significant risk to employment prospects'[61]) is that there is no acceptable negative employment effect, or that any amount of disemployment effect is 'too much'. That we should reject this position is clear from this example: if employment fell by 1 person in response to a minimum wage

59 Department for Business and Trade, National Minimum Wage and National Living Wage: Low Pay Commission remit 2022, March 2022.
60 A Dube, Impacts of minimum wages: review of the international evidence, November 2019.
61 Discussions with the Low Pay Commission and Government officials suggest that we might infer from the Government's decision making that this is not its position. The Office for Budget Responsibility publish forecasts which explicitly include a negative impact on employment from minimum wage rises. Because the Government is aware of these forecasts and goes ahead with its uprating, it might be thought to implicitly accept employment effects in line with the OBR's forecasts. The OBR initially assumed a disemployment parameter of -0.4, which it then lowered to -0.3 in 2018, which amounts to expecting employment to be 50,000 lower (with an equivalently sized effect on hours worked). On this line of thinking, the Government is happy to accept employment effects at least as large as that. However, if this is the Government's view, it would be better to set this out explicitly.

uprating which benefited 1.7 million people (the number of people paid the minimum wage in 2022), surely no one would deny this was worth doing. In the language of 'own wage elasticities' (OWE), rejecting this position means saying that OWEs less than zero may be acceptable.[62]

In the same vein, we can also rule out OWEs approaching -1, where negative effects on employment wholly wipe out the wage gains enjoyed by the affected group. This would be the case if, for example, the minimum wage rose 10 per cent and employment among workers on the minimum wage fell by 10 per cent (note that spillover effects would mean there would also be effects on the wages and employment of workers earning above the minimum wage). In this outcome, minimum wage workers as a whole don't benefit, in the sense that the wages paid going to minimum workers in aggregate are unchanged. Moreover, the distributional consequences would be undesirable in that some workers would lose all their labour income, and because unemployment has negative consequences independent of its effect on income. It has a negative effect on wellbeing (even after controlling for income)[63], and, if lasting, is likely to have a negative 'scarring' effect on future earnings and employment.[64] Therefore a result where total wages for a group are unchanged (because wages and employment fully offset) but where employment has fallen is unambiguously a negative one.

Between these two polar cases it's hard to be definitive about what an acceptable level of employment effect is, not least because doing so requires a judgement about the relative importance of wage increases and employment. There is a literature on 'optimum' minimum wages (summarised in Annex 3), but constructing these estimates requires a large modelling exercise which is beyond this paper. But we can offer some relevant considerations about the appropriate balance of wages and employment in minimum wage policy.[65]

- First, as alluded to above, data on **subjective wellbeing** can be used to get a rough sense of the negative impact on wellbeing that results from being out of work. For the purpose of illustration, the relationships we estimated in a 2019 paper would suggest that a one unit increase in log income increases 'happiness' by 0.157 units, while unemployment reduces it by 0.31 units. This alone could suggest placing a

62 The employment effect of the minimum wage is usually measured in terms of an estimated 'own wage elasticity' (OWE), which is the percentage change in employment among a group following from a one percent rise in that group's wage induced by the minimum wage. An OWE of zero would mean there was no impact on employment at all, while minus 1 would mean job losses fully cancel out wage gains.

63 We published a report on wellbeing in 2019, which showed that unemployment has a significant negative effect on wellbeing even controlling for income. Being unemployed, compared to being in a full-time employee job was associated with -0.7 lower 'points' on life satisfaction, -0.3 for happiness, -0.5 for a sense that life is worthwhile, and -0.3 for freedom for anxiety (all measured on a scale from 1 to 7). See, G Bangham, Happy Now? Lessons for economic policy makers from a focus on subjective well-being, February 2019.

64 For one of many papers estimating unemployment scarring effects, see: P Gregg & E Tominey, The Wage Scar from Youth Unemployment, February 2004.

65 We are grateful to Anna Stansbury for providing insights here.

ceiling on an acceptable OWE of around (minus) one-third.[66]

- Second, we know that unemployment doesn't just have an effect on current earnings and wellbeing, but can also lead to 'scarring' effects on a person's future earnings and employment. **Scarring** effects are greater when the duration of employment is longer. This is another reason to add weight to employment when weighing these up against wage gains. A rough calculation suggests the present value of the future scarring effects of higher unemployment could be worth 1 per cent of wages for an OWE of one-third and a 10 per cent increase in the minimum wage. This would reduce the net gain in wages by about one-eighth.[67]

- The distribution across workers of any increase in unemployment will affect any welfare analysis. On one hand, the scarring effects of unemployment on the wages of the employed may be small if all the extra unemployment incides upon a few workers who remain unemployed forever. But on the other hand, such an outcome would be unequal, with some workers getting higher wages forever, and other workers losing all their wages.

- The economic context also matters – during downturns long-term unemployment rises, and the proportion of unemployment that is long-term rises – for example in 2012 35 per cent of the unemployed had been out of work for a year or more, compared to 20 per cent in 2005.[68] This means a given increase in unemployment during a downturn is more likely to lead to longer spells out of work, and in those periods policy makers should be more cautious and place greater weight on employment.

- **Place** also matters. If minimum wage rises cause distress to particular local labour markets (i.e. if significant disemployment occurs within a concentrated area), this might be more likely to lead to longer-term effects on the people working in those areas. It's already the case that there are some areas (including Hull, Blackpool, Middlesborough, Wolverhampton, and Birmingham) where unemployment is relatively high and where the minimum wage is high relative to local wages (see Figure 23). The Low Pay Commission monitor developments in local labour markets, and should continue doing so. But all else equal, an employment effect concentrated on a subset of areas would be less desirable than one which was

66 The elasticity of utility U with respect to the minimum wage x can be written as $dU/dx = \beta(1+\beta) + \beta p$ where β is the OWE, β is the elasticity of utility with respect to income and p is the elasticity of utility with respect to the employment probability. The threshold value of β at which the change in utility is zero is given by $\beta/(\beta+p)$

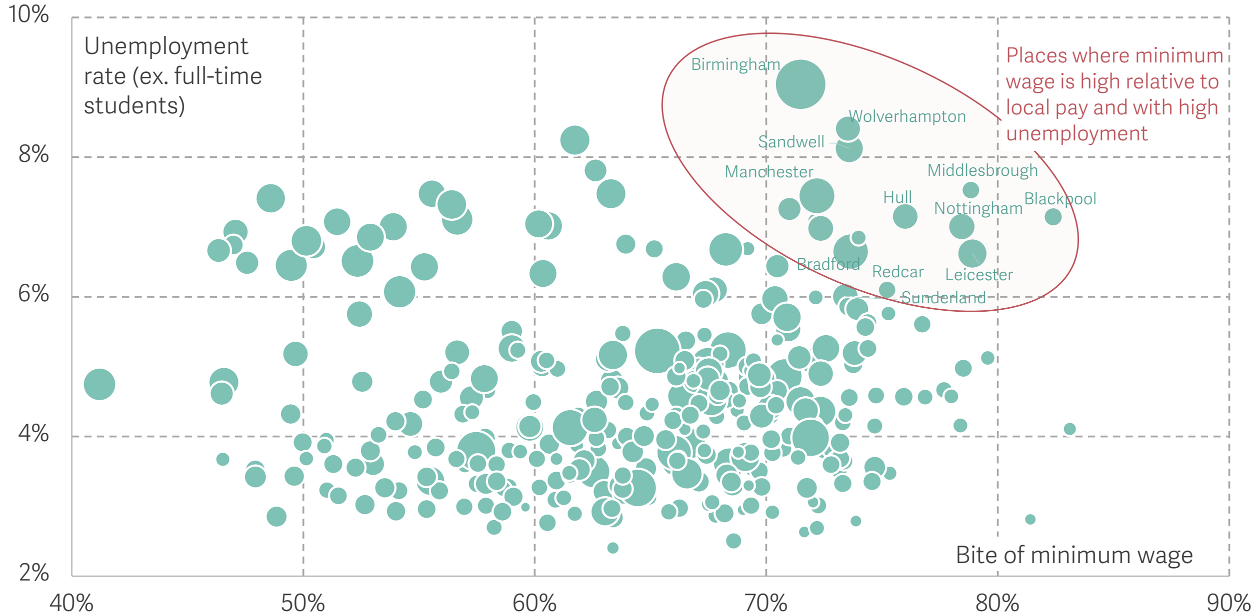
67 We take the baseline unemployment rate for the treated group to be 10 per cent and consider an increase of the minimum wage of 10 per cent. We simulate the increase in lifetime unemployment risk and assume that an additional year of unemployment reduces wages when re-employed by 5 per cent, capped at two years. We assume that unemployment risk is uncorrelated across time and discount lifetime earnings by 3 per cent per year. On these assumptions, the average loss in lifetime wages when employed is 1 per cent when the minimum wage is increased. This is enough to wipe out approximately one-eighth of the net increase in employment income.

68 Source: ONS, Labour Force Survey, via ONS, Labour Market Statistics.

broader based (as it would be more likely to lead to longer-lasting effects), and would therefore again warrant placing a higher weight on employment.

FIGURE 23: **Some local areas would come under pressure from a higher minimum wage**

Unemployment rate (excluding full-time students) in 2021 and the minimum wage as a proportion of local median hourly pay of residents in 2022 by local authority: GB



SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings, 2022 and ONS, Census 2021.

Based on the above, what is the reasonable middle ground between accepting some disemployment but wanting to steer well clear of minimum wage levels that are so high that all gains are lost? In Arin Dube's 2019 review, he described OWEs of up to -0.4 as 'small', but our analysis of the wellbeing data above (i.e. accounting for the negative impact on wellbeing of unemployment) suggests that a slightly more conservative value of -0.3 might be a good place to start.[69] This is more specific and more ambitious than the current remit.

What might this mean in practice? To give an indicative illustration, let's assume that the target path shown in Figure 22 was followed, leading to a minimum wage with a 73 per cent bite in 2029, and that an OWE of -0.3 was identified in that same year. Compared to a world in which the minimum wage was held at its 2022 bite (i.e. it was uprated with wage growth only), the minimum wage would be 18 per cent higher. Assuming the OWE rose linearly to reach -0.3 (from -0.17 today, an assumption based on the IFS's 2021 report[70]), employment would be 168,000 lower in 2029, of which 65,000 comes from lower employment among employees paid at the minimum wage (-3.8 per cent), and 103,000

69 A Dube, Impacts of minimum wages: review of the international evidence, November 2019.
70 Cribb et al, The impact of the National Living Wage on wages, employment and household incomes, December 2021.

from lower employment among employees paid above the minimum wage but affected by 'spillover effects' (-1.9 per cent), which are assumed to extend through the bottom quarter of the wage distribution.

Overall, employment across the economy would be 0.5 per cent lower. This is not an insignificant number – it's the same as the lingering hit to employment post-pandemic (employment in the three months to January 2023 was 0.5 per cent below the level in the three months to March 2020). But of course, this needs to be set against the improvement in wages experienced by (in this scenario) the UK's 7 million lowest earners.

These numbers are only intended to give a sense of the scale of the effects we are discussing, and they are specific to an ***employment elasticity of -0.3*** being reached ***at that level of minimum wage***. They are sensitive to how quickly the employment elasticity rose to that level. And they assume the entire effect happens through employment rather than hours – the OBR typically assume that half the employment effect occurs through lower hours worked (if we followed this approach, the above estimates of the size of the employment effect would, naturally, be halved). In practice, of course, there is no way of knowing at what level of minimum wage employment effects of that size would be triggered. In the evidence to date, employment effects have, famously, proved 'elusive', so it may be possible to reach a much higher minimum wage before effects of this size were found.[71]

Ultimately, the difficulty of coming up with a precise response to the question of how to weight employment and wages, and when to stop raising the 'bite' of the minimum wage, should tell us that this is something the Government should be giving deliberate thought to now. There has been little if any discussion of these questions in policy circles so far. Having consistently made significant increases to the minimum wage, stopping uprating (relative to median wages) will be a difficult and contentious decision when the time comes, but easier if some of the intellectual groundwork has been laid in advance.

Policy makers must look beyond the minimum wage to improve work – reforming statutory sick pay should be a priority

The minimum wage has clearly been a very important success, and should continue to form the centre of any strategy to improve low-paid work. But pay is far from the only thing which matters to workers. This is probably something that goes without saying, but we also demonstrate this in our survey evidence in Section 4, where over half of workers (53 per cent) said they would be willing to turn down a pay rise (sometimes a pay rise of as much as 10 per cent) across all workers who chose a non-pay aspect of work they would like to see improved.

71 A Manning, The elusive employment effect of the minimum wage, Journal of Economic Perspectives, Winter 2021.

One of the areas most in need of reform is statutory sick pay (SSP). As the Coronavirus crisis made clear, the current system is inadequate and means many people struggle to make do while off work through sickness. [72] The fundamental problem is that SSP is set at too low a level. This, combined with the three-day waiting period, means workers who face time off through sickness and are reliant on SSP experience a significant income hit. For someone working full-time on the minimum wage, a week's absence through sickness would currently mean receiving just £43.76 in SSP, just 11 per cent of their normal earnings (£390.75). This matters because 40 per cent of the lowest paid workers rely on SSP as their employer does not offer them an occupational sick pay scheme.

Of course, there are trade-offs to consider when it comes to designing a sick pay system. Adequate income protection for workers needs to be set against the risk of shirking. While for employers, there should be an incentive to help staff return to work (hence why many countries expect employers to cover some or all of the cost of statutory sick pay),[73] a good system should also enable some amount of risk pooling (i.e. sharing the costs), so that small employers are not overly exposed to losing staff to sickness.

The current system does not do a good job of balancing these trade-offs. Workers have little incentive to shirk, but this comes at the expense of extremely low income protection, while for employers there is no risk pooling (the UK is unusual in this respect).[74] We suggest reforming SSP as follows:

- SSP to replace 65 per cent of usual weekly earnings (this is close to the median replacement rate across OECD countries of 64 per cent).
- The waiting time before receiving SSP should be reduced from three days to one day. This change could help reduce the early spread of illnesses and provide support to the majority of workers who are only off sick for short durations.
- SSP should be extended to workers with low weekly earnings i.e. those below the Lower Earnings Limit (LEL) of £123 a week.
- To limit costs, the earnings eligible for the 65% replacement could be capped at £30,000 per year (£2,500/month), as was the case under the furlough scheme. This would cap weekly SSP payments at £374.

These changes would make a big difference to the 4.1 million private-sector employees who expect to get SSP if they fell ill under the current system, of which we estimate

72 Over Covid-19 the UK Government had to rapidly introduce reforms to improve the system (like reducing the waiting days to zero), which have since been reversed. For a full discussion of SSP during Covid-19 see: M Brewer & M Gustafsson, Time out: Reforming Statutory Sick Pay to support the Covid-19 recovery phase, Resolution Foundation, December 2020.

73 OECD, Disability, Work and Inclusion in Korea: Towards equitable and adequate social protection for sick workers, OECD Publishing, (Forthcoming).

74 A Harrop, Statutory Sick Pay: Options for Reform, Fabian Society, June 2021.

that around 1.4 million workers are actually in receipt of SSP in a given year. Extending the eligibility criteria to include those below the LEL would mean 1.6 million (1.3 million private-sector) additional workers would be eligible for statutory sick pay. As Annex 2 shows, the combination of sick pay starting from day two (rather than four) and earnings-related sick pay of 65 per cent (rather than a flat rate) would see full and part-time minimum wage workers remuneration for a week of sickness increase considerably compared to the existing system (by £159.43 and £64.61, respectively in the illustrative example).

Beyond better income protection, a more generous system would of course also contribute to improved public health by reducing presenteeism and limiting the spread of contagious diseases – we need only look at the improvements which had to be made to SSP during Covid to see this.[75] Strikingly, during the pandemic, for example, care homes that paid sick pay were significantly less likely to have seen Covid-19 cases rise.[76]

A new scheme would have to consider the additional costs faced by employers. We estimate that the additional annual SSP cost to employers of the changes described above, if there were no changes in the number of sick days taken, would be £600 million per year, a 140 per cent increase.[77] This increase would however represent just 0.1 per cent of total annual spending on wages. And under this new scheme, we estimate SSP costs would still only amount to 4 per cent of the amount spent on occupational sick pay schemes.

There would be no change for the employers (and their workers) who already offer an occupational sick pay scheme – which are commonplace among large employers (a 2019 government report found 77 per cent of employers with more than 250 staff offer an occupational sick pay scheme) but rare among small employers (the same study found just 26 per cent of employers with fewer than 50 staff do so).[78] This means most of the additional SSP costs from moving to a more generous SSP system would be borne by small businesses. And as mentioned above, it may be desirable to build into the scheme a mechanism to lower small employers' risk of facing very large SSP costs (i.e. from staff with a long sickness absence). This used to be built into the UK's system: even after full SSP rebates ended in the 1990s, until 2014 the state reimbursed firms facing high SSP

75 S Chen et al., Tracking the Economic Impact of COVID-19 and Mitigation Policies in Europe and the United States, IMF Working Paper 20 (125), July 2020. When Germany reduced sick pay generosity in 1996 it did indeed reduce shirking from work but it also encouraged sick workers with contagious diseases to return to work, for example. N Ziebarth & S Pichler, The pros and cons of sick pay schemes: Contagious presenteeism and noncontagious absenteeism behaviour, VoxEU, May 2018.

76 ONS, Impact of coronavirus in care homes in England: 26 May to 19 June 2020, July 2020.

77 This estimate is based on modelling in the Labour Force Survey. We construct a distribution of sickness absences in line with that published in table A.6 in: DWP, Health and wellbeing at work: survey of employees, June 2015. We modify this by occupation group (without changing the overall average sick days taken) based on ONS, Sickness absence in the labour market, 2018. Employees are assumed to be in receipt of SSP based on their weekly pay and the data gathered in our YouGov survey (shown in Figure 17).

78 Department for Work and Pensions, Sickness absence and health in the workplace: understanding employer behaviour and practice – an interim summary, June 2019.

costs relative to their payroll.[79] Such reimbursements would involve additional public spending, though if limited to support for costs resulting from longer sickness absences these would be modest.[80] However, there would be additional downsides of such support in the shape of deadweight costs (i.e. the state would be reimbursing some costs which are currently borne through occupational sick pay schemes) and the fact that the Government would effectively be providing a small subsidy to employment in small businesses where productivity is on average lower.

Another important point is that we would expect improving the generosity of SSP to lead to a behavioural change, and more sick days taken. Countries with more generous sick pay systems tend to see more sick days taken on average. According to OECD data, the average number of sick days taken per year is 4.5 in the UK, compared to 9.2 in France and 11.7 in Germany, both of which have sick pay systems with replacement rates comparable to the 65 per cent we have proposed (shown in Figure 24). If the number of sick days taken by workers on SSP doubled, that would increase total additional SSP costs by a further £900 million over and above the static impact set out above, bringing the total additional SSP spending resulting from the policy change to £1.5 billion per year.[81] This sounds like a large number, but this would still only represent 0.2 per cent of total spending on wages and salaries per year, and just 8 per cent of the amount of money employers currently spend on sick pay through occupational schemes.

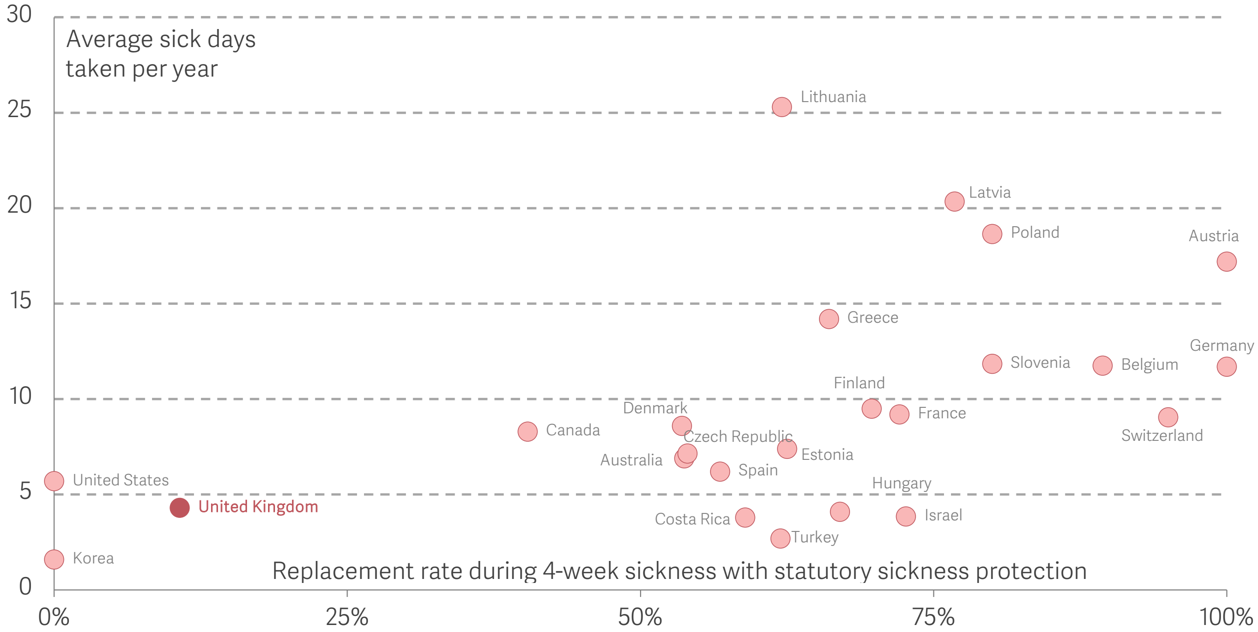
79 A Harrop, Statutory Sick Pay: Options for Reform, Fabian Society, June 2021.

80 A recent Fabians report proposed a 50 per cent reimbursement for small employers (with fewer than 50 staff) for SSP costs incurred for sickness absences lasting longer than six weeks. We estimate that the static cost to Government of such a scheme (i.e. assuming no change in the number of sick days taken) would be £60m per year (based on 2022 wages and SSP system). For Fabians proposal, see: A Harrop, H Reed & E Sacares, In time of need: Building Employment Insurance for All, Fabian Society, March 2023.

81 In addition to the notes in footnote 69, for our behavioural change results, we assume that sick days rise from 6 to 11 among the lowest earners on SSP, from 5 to 9 among middle earners on SSP, and from 3 to 5 among high earners on SSP.

FIGURE 24: **Making SSP more generous would likely lead to workers taking more sick days**

Average number of days' sick leave taken per year, and replacement rate of statutory sick pay system (2020), by country



NOTES: Figure only displays countries where both the number of sick days and the replacement rate of the sick pay system is available. Replacement rate is calculated based on average pay in private sector, and based on four-week sickness absence.
SOURCE: Replacement date from: OECD, Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment, March 2020. Days sick day per year from OECD, Absence from work due to illness.

Workers taking more sick days would also, of course, involve a loss of labour supply. Taking the extreme case of a doubling of total sick days taken, that would reduce total days worked per year by 1.7 per cent.[82] However, in reality we expect the effect would be smaller since our proposal only affects those workers who don't currently have an occupational sick pay scheme: if only workers who don't currently have an occupational sick pay scheme doubled their sick days' taken, this would instead involve a 0.7 per cent reduction in days worked.[83] We should further bear in mind that many of the working days being 'lost' here are days which are currently worked by sick people, who are likely to be less productive than normal – so the impact on output would be smaller.[84] However, these are still significant numbers. But they are an acceptable price to pay for a sick pay system which treats workers with dignity.

82 This is a rough number, setting 4.5 days' additional sick leave against 262 working days per year.
83 This is based on private sector workers without an occupational sick pay scheme doubling their days' sick leave from 4.5 to 9, and other workers remaining at 4.5 days.
84 S Ruhle et al., To work, or not to work, that is the question: Recent trends and avenues for research on presenteeism, European Journal of Work and Organizational Psychology 29 (3), July 2019.

There is also more that can be done to protect workers against other types of insecurity

Reforming sick pay would remove a real source of insecurity facing workers. No one should have to face a significant income hit as a result of a few days' illness. In the same spirit of reducing problematic forms of insecurity, we can do more to protect to workers who experience volatile hours and pay. This should include:

- Giving workers a right to a contract with regular minimum hours where this reflects their normal working pattern.[85]
- A right to at least two weeks' advance notice of shifts, and compensation when planned shifts are changed with less notice than that.

These recommendations were made five years ago in 2018 by the Low Pay Commission's submission to Matthew Taylor's Review into Modern Working Practices.[86] We have made the case for these reforms in several reports ourselves – not least by showing the large number of low-paid workers for whom unexpected changes to hours are a significant source of anxiety.[87]

Alongside these changes, we should also reduce the length of time workers' have to spend in a job before unfair dismissal law applies to 1 year – its level until it was raised to 2 years in 2011. Currently, 2.4 million (42 per cent of) workers in the bottom hourly pay quintile have been working for their employer for less than two years and therefore have no protection against unfair dismissal (across all pay levels there are 8.5 million workers with no unfair dismissal protection).[88]

Other areas for reform could include boosting holiday entitlement and making parental pay more generous

While we would certainly prioritise sick pay and new entitlements on regular hours, we showed in Section 4 that there are other areas where the UK has a low regulatory floor compared to other countries, and that these only really affect low-paid workers (because high paid workers are likely to be offered a more generous arrangement by their employer). Two areas where the UK could strengthen its offer are holiday entitlement and parental pay.

85 To be clear this means we are not calling for the abolition of zero-hours contracts – for the reason that a significant number of workers enjoy the benefits these offer. Instead, where workers would prefer a contract with stable guaranteed hours, and where this is the reality of their work in practice (i.e. they have worked at least a minimum number of hours per week for a certain length of time), they should be entitled to such a contract.
86 Low Pay Commission, Low Pay Commission Response to the Government on 'one-sided flexibility', December 2018.
87 N Cominetti et al, Low Pay Britain 2022: Low pay and insecurity in the UK labour market, May 2022
88 Source: Analysis of ONS, Labour Force Survey, 2022 datasets.

On holiday entitlement, workers in the UK receive lower statutory holiday entitlement than workers in many other rich countries. Including bank holidays, statutory holiday entitlement in the UK is 28 days. This is three days lower than the median among OECD countries of 31 days (which is what is offered in New Zealand, Estonia, Hungary, Finland and Norway). Many countries offer much more – for example in France and Spain the minimum is 36 days (25 days statutory annual leave plus 11 bank holidays in the case of France), and in Austria a still higher 38 days (25 days statutory leave plus 13 bank holidays). Our surveys of private-sector employees showed that more paid holiday was the most commonly chosen item when presented with a list of things that would improve work – chosen by 16 per cent of all respondents. There is therefore a strong case for lifting the minimum holiday entitlement to at least the OECD median, which would mean adding three days to the UK entitlement. As with sick pay, this would reduce the number of days worked – here by roughly 0.2 per cent in total.[89]

Importantly, and along with all the proposals in this section, this would particularly benefit low-paid workers – for whom more paid holiday was also the number one choice of factors that would improve work (selected by 14 per cent of respondents). That is because low-paid workers are more likely to only receive the statutory minimum holiday: among full-time workers, a third of those in the bottom hourly pay quintile receive either the statutory minimum entitlement or say they don't receive paid holiday at all (compared to just 7 per cent of the highest paid quintile).

Similarly, there is a strong case for strengthening parental pay. Maternity pay in the UK offers a much lower replacement rate (compared to a woman's normal pay) than most other rich countries. The OECD calculate that maternity pay would on average offer a replacement rate of just 27 per cent, compared to the median OECD country of 40 per cent (which is what is offered in Italy), and much higher rates of replacement in several Eastern European and Scandinavian countries.

Again, this is something that affects low-paid workers much more than it does other workers. Our survey evidence found that, among the lowest paid women aged under 45 (those earning below £20,000), and excluding those who said they didn't know, two thirds (65 per cent) would expect to rely on statutory maternity pay only while on maternity leave or not be paid at all, compared to just 21 per cent of women earning above £50,000.

Parental pay wasn't covered in depth in this report and therefore we don't offer a detailed policy proposal here. But the most compelling way of strengthening parental pay would be to the extend the period during which the 90 per cent replacement rate is offered. At present this lasts for just 6 weeks – which is hard to justify when the typical period of

89 This is based on analysis of the LFS which suggests 21.5 per cent of full-time employees receive less than or equal to the current statutory minimum leave entitlement plus three days. Adding three days to those workers' leave entitlement adds 0.6 days' leave per worker overall, which is 0.2 per cent of the 261 working days per year.

maternity leave lasts for 9 months.[90] We should not expect low paid women to deal with such a significant income hit when having a baby.

Higher minimum standards require stronger enforcement

Higher minimum standards raise the potential for non-compliance among employers. It is therefore essential that they are accompanied by rigorous enforcement. Even with our labour market standards where they are today, our enforcement system has significant shortcomings. Around half a million employees are paid less than the (age-relevant) minimum wage, partly because penalties for non-compliance are low.[91] And the main system through which workers can seek redress – employment tribunals – does not do a good job of helping low earners, who are most at risk of facing infringement of their employment rights.[92]

We have been conducting a research programme into labour market enforcement for the past three years and will be publishing a final report with a full set of policy proposals at the end of April 2023.

Raising minimum standards should be overseen by the Low Pay Commission

We have discussed above the trade-offs involved in each of the specific policy areas. However, because all of them are likely to increase employment costs to some degree, it would be important for effects of these policies to be assessed in the round. Here there is a clear role for the Low Pay Commission (LPC) – whose remit could be expanded to look at low pay ***and conditions***. The Government and LPC could treat the raising of minimum standards beyond pay in the same way they do the minimum wage: the Government should set the direction of travel, while the LPC should be tasked with evaluating impacts and with advising Government on the timings and specifics of policy changes.

There is also the interesting question about whether there are trade-offs ***between*** the minimum wage and non-pay minimum standards. It is possible that raising the minimum wage will make employers look for cost savings elsewhere, which may include reducing the non-pay amenities offered, especially to low paid workers. This might include removing access to occupational sick pay schemes, reducing holiday entitlement, or pushing for greater use of atypical employment (such as agency work and zero-hours

90 This was calculated using Understanding Society dataset for years 2009-2022, based on women who had returned to work after childbirth, and who specified the date their child was born and the date they returned to work. Note that durations of maternity leave don't vary significantly by pay level. The median length was 8.9 months overall, and 9.0 months among women in the lowest hourly pay quintile, and 8.2 months among women in the lowest hourly pay quintile. Pay is measured in women's job post-maternity leave.

91 Source: RF analysis of ONS, Annual Survey of Hours and Earnings, 2022. For our report on minimum wage non-compliance, please see: L Judge and A Stansbury, Under the wage floor: Exploring firms' incentives to comply with the minimum wage, January 2020.

92 L Judge and N Cominetti, From rights to reality: Enforcing labour market laws in the UK, September 2019.

contracts). The potential for these responses is a reason why it is important for these other minimum standards to be raised ***alongside*** the minimum wage. We know that workers place a value on many non-pay amenities (our survey evidence in Section 2 showed that more than half of private-sector employers would turn down a wage rise to gain them) which means that a minimum wage rise which was paid for with the erosion of non-pay amenities would be an undesirable outcome for many workers.

These proposals would not make the UK labour market less flexible

Many believe that the UK's flexible labour market is an important part of its economic model – promoting high employment (by reducing the risk attached to taking on new workers) and encouraging the efficient allocation of labour, and thereby supporting (or at least not hindering) productivity growth.[93] The strength of the relationship between employment regulation and economic growth is not clear – not least because there are examples of countries with higher productivity than the UK with both much lower (the United States) and higher (France, Germany) levels of employment regulation.[94] But in any case, it's worth stressing that the higher minimum standards we propose here would not be expected to have much impact on worker flows. Most would have an impact on labour costs, but not through making hiring or firing more expensive. Our proposal for reducing the unfair dismissal rule to one year is directly related to hiring and firing, but when this rule was changed in 2011 there was no impact on the rate of involuntary dismissals, so we would not expect any change from reversing this.[95]

The above proposals wouldn't benefit the self-employed – where the first priority should be to reduce 'bogus' self-employment, and to remove the self-employment tax incentive

The above policy proposals would make a difference to millions of low earners. But they all relate to employees rather than the self-employed, who are growing as a share of the low-paid workforce (we estimated last year that a third of all low-paid workers are self-employed).[96] There are of course ways in which some of the spirit of the proposals above could be extended to the self-employed. A full discussion of options is beyond the scope of this paper, but it would be possible to imagine the offering self-employed workers earnings-linked sickness and parental leave insurance through the social security system.[97]

93 'Recent trends in employment protection legislation' in: OECD Employment Outlook 2020: Worker Security and the Covid-19 Crisis, OECD, July 2020.
94 As measured by OECD, Strictness of employment protection – individual and collective dismissals (regular contracts).
95 For a time series of involuntary dismissals, see Figure 15 in: N Cominetti et al, Changing Jobs: Change in the UK labour market and the role of worker mobility, January 2022.
96 N Cominetti et al. Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.
97 For a full set of policy options and accompanying discussion see: A Harrop, H Reed & E Sacares, In time of need: Building Employment Insurance for All, Fabian Society, March 2023.

However, even without changing what is offered to self-employed workers, policy makers could still drive improvements for self-employed workers by bringing more self-employed workers within the scope of policies which relate to 'workers'. This should include creating a clearer legal test of self-employment so that those who are truly 'workers' (and entitled to the minimum wage) can more easily secure that status. Secondly, we should remove the tax incentive to organise work as self-employment – this means self-employed workers should pay the same National Insurance Contributions as employees.[98]

98 N Cominetti et al. Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022.

Section 6

Conclusion

The UK has made tremendous progress on eroding low pay in recent years – not progress that we would have expected when we first started producing annual Low Pay Britain reports in 2010. It is right to celebrate this. But we need to recognise there are still big problems facing low earners. So rather than just celebrating the minimum wage we must learn the lessons it gives us about what is possible, and about the choices we can make as a country about the nature of low paid work. We can through concerted policy action ensure everyone has a minimum level dignity at work. We have argued in this report that priority areas for reform relate to security of one type or another, and we have highlighted the need for a better statutory sick pay system, and protections for workers whose hours and pay vary unexpectedly.

This report is also about how improving work should be seen as part of an overall economic strategy. While it's important to consider the micro trade-offs involved in each policy area, looking at the big picture and at how our labour standards shape our economy matters too. We will continue to develop this idea in forthcoming reports, including through our Economy 2030 Inquiry, which will conclude in the autumn. As part of this inquiry, and relevant to this report, we will be writing reports on the potential for sector level bargaining to drive up employment standards, and on how our social security system should evolve over the coming decade. Later this month (April 2023) we will also publish a report concluding our three-year programme investigating the enforcement of labour market rights, which is of course a vital complement to any programme of raising minimum standards.

Annex 1: Low pay in 2022

TABLE 1: **Proportion and number of employees below selected hourly low paid thresholds: GB, 2022**

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% of all below threshold	% in group below threshold	Number (000s)	% of all below threshold	% in group below threshold	Number (000s)	% of all below threshold	% in group below threshold
All employees	2,525	100%	9%	1,670	100%	6%	3755	100%	13%
Sex									
Men	1,065	42%	8%	690	41%	5%	1545	41%	11%
Women	1,460	58%	10%	980	59%	7%	2210	59%	16%
Age group									
16-20	735	30%	57%	150	9%	12%	850	23%	66%
21-24	310	13%	16%	210	13%	11%	460	13%	24%
25-30	230	9%	6%	200	13%	5%	395	11%	10%
31-35	175	7%	5%	155	10%	5%	295	8%	9%
36-40	180	7%	5%	160	10%	5%	290	8%	9%
41-45	170	7%	5%	150	9%	5%	275	8%	9%
46-50	180	7%	6%	160	10%	5%	290	8%	9%
51-55	160	7%	5%	140	9%	5%	275	8%	9%
56-60	170	7%	6%	150	9%	6%	280	8%	11%
61-65	140	6%	9%	125	8%	8%	225	6%	14%
Region									
North East	130	5%	12%	90	5%	8%	180	5%	17%
North West	310	12%	10%	205	12%	7%	425	11%	14%
Yorkshire and The Humber	245	10%	10%	170	10%	7%	410	11%	17%
East Midlands	215	8%	11%	145	9%	8%	285	8%	15%
West Midlands	270	11%	11%	195	12%	8%	355	9%	15%
South West	230	9%	10%	140	9%	6%	305	8%	13%
East	235	9%	9%	145	9%	6%	320	9%	12%
London	220	9%	5%	160	10%	4%	625	17%	15%
South East	345	14%	8%	210	13%	5%	435	12%	11%
Wales	130	5%	10%	80	5%	6%	165	4%	13%
Scotland	195	8%	8%	125	8%	5%	255	7%	10%
City region									
Manchester	115	5%	10%	80	5%	7%	160	4%	14%
Birmingham	115	5%	10%	90	5%	8%	155	4%	14%
Liverpool	55	2%	10%	40	2%	7%	75	2%	14%
Leeds	120	5%	10%	80	5%	7%	235	6%	19%
Sheffield	70	3%	11%	50	3%	8%	95	3%	15%
Newcastle	95	4%	12%	65	4%	8%	135	4%	16%
Nottingham	45	2%	12%	30	2%	8%	65	2%	16%
Bristol	45	2%	7%	25	2%	4%	55	1%	9%
Glasgow	65	3%	8%	45	3%	5%	85	2%	10%
Cardiff	60	2%	9%	40	2%	6%	75	2%	12%
Tees Valley	35	1%	14%	25	1%	10%	45	1%	18%
London	220	9%	5%	160	10%	4%	625	17%	15%
East Anglia	85	3%	9%	55	3%	6%	120	3%	13%
Greater Lincolnshire	55	2%	14%	40	2%	10%	75	2%	17%

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% of all below threshold	% in group below threshold	Number (000s)	% of all below threshold	% in group below threshold	Number (000s)	% of all below threshold	% in group below threshold
Hours worked									
Full time	930	37%	5%	650	39%	3%	1515	40%	8%
Part time	1,595	63%	20%	1,020	61%	13%	2240	60%	29%
Hours worked and sex									
Full time men	515	20%	4%	360	22%	3%	805	22%	7%
Full time Women	415	16%	5%	290	17%	3%	705	19%	9%
Part time men	550	22%	26%	330	20%	15%	740	20%	34%
Part time Women	1,045	41%	18%	690	41%	12%	1500	40%	27%
Firm structure									
Private companies	1,970	78%	11%	1,270	76%	7%	2895	77%	16%
Sole proprietors	140	6%	32%	110	7%	25%	170	4%	38%
Partnerships	105	4%	18%	70	4%	12%	140	4%	23%
Central government	70	3%	2%	50	3%	1%	145	4%	4%
Local authorities	65	2%	2%	45	3%	2%	130	4%	5%
Non-profit bodies and mutuals	165	7%	6%	125	7%	5%	265	7%	10%
Firm size									
XS (0-9 employees)	570	24%	22%	450	29%	17%	695	20%	27%
S (10-49 employees)	580	24%	14%	375	24%	9%	745	22%	19%
M (50-249 employees)	325	14%	9%	210	13%	6%	480	14%	13%
L (250-4,999 employees)	490	20%	8%	310	20%	5%	795	23%	13%
XL (5,000+ employees)	420	18%	9%	225	14%	5%	755	22%	16%
Industry									
Agriculture	30	1%	18%	20	1%	10%	40	1%	24%
Manufacturing	155	6%	6%	120	7%	5%	225	6%	9%
Water supply & waste	5	0%	4%	5	0%	3%	15	0%	7%
Construction	80	3%	8%	55	3%	5%	100	3%	9%
Wholesale & retail	565	23%	15%	385	23%	10%	890	24%	23%
Transport & storage	50	2%	4%	40	2%	3%	75	2%	7%
Hotels & restaurants	580	23%	39%	300	18%	20%	745	20%	50%
Info. & comms.	30	1%	3%	20	1%	2%	45	1%	4%
Finance	10	0%	1%	5	0%	1%	15	0%	2%
Real estate	25	1%	6%	20	1%	5%	40	1%	10%
Prof. & technical	85	3%	4%	60	4%	3%	125	3%	6%
Admin & support services	240	10%	14%	195	12%	11%	360	10%	21%
Public admin	15	1%	1%	10	1%	1%	30	1%	2%
Education	170	7%	4%	120	7%	3%	300	8%	8%
Health & social work	260	10%	6%	180	11%	4%	465	12%	11%
Arts & recreation	110	4%	20%	60	4%	11%	140	4%	26%
Other service activities	90	4%	18%	75	4%	14%	120	3%	23%

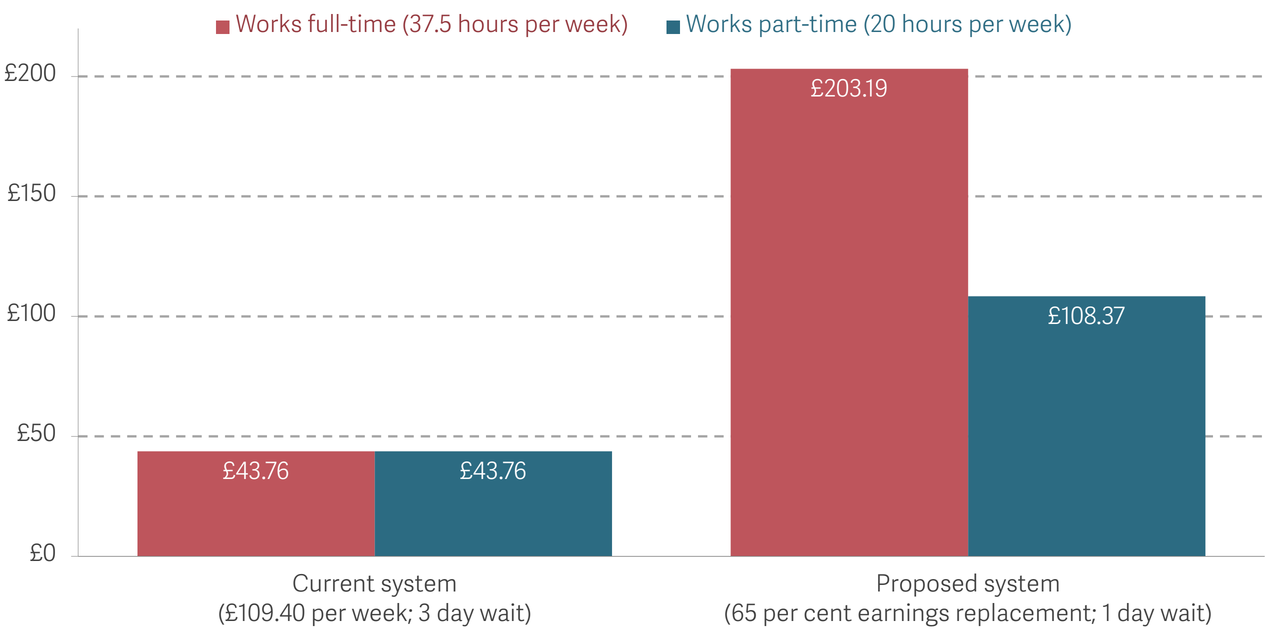
NOTES: 'At or below minimum wage' defined as earning below the age-specific minimum wage plus 5p.
SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey Panel Dataset.

Annex 2: An illustrative example of a new Statutory Sick Pay system

Reforms to Statutory Sick Pay would be much more generous to a typical full-time and part-time minimum wage worker than the current system (as shown in Figure 25). The combination of sick pay starting from day two of sickness (rather than four) and earnings-related sick pay of 64 per cent (rather than a flat rate) would see full and part-time minimum wage workers remuneration for a week of sickness increase considerably compared to the existing system (by £159.43 and £64.61, respectively).

FIGURE 25: **Reforms to SSP would be much more generous to typical full-time and part-time minimum wage workers than the current system**

Statutory sickness payments if a full-time and part-time minimum wage worker took one working week of sick leave, in existing and proposed system



NOTES: Assumes a worker is on the 2023 minimum wage of £10.42/hour. Current system: £109.40/week after 3 waiting days. Proposed system: 65% earnings replacement after 1 waiting day.
SOURCE: Analysis of Gov.uk: Overview of SSP.

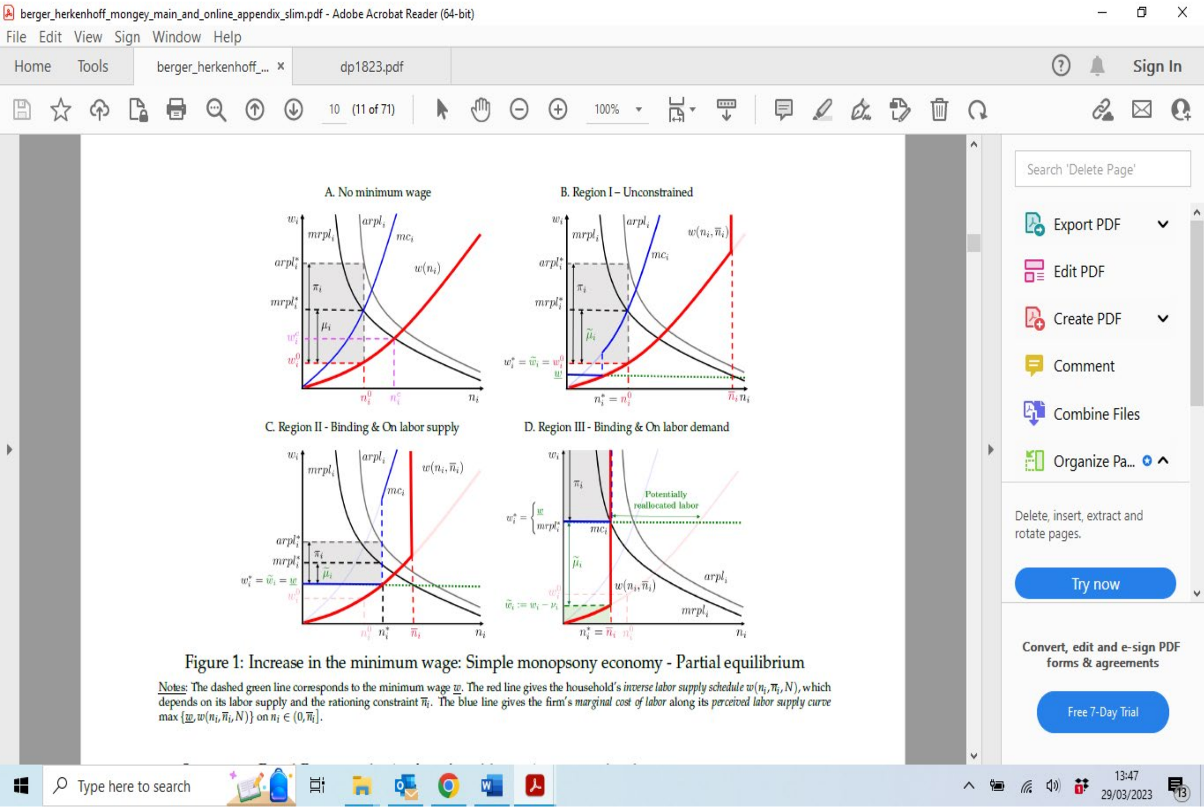
Annex 3: Thinking about optimal minimum wages

In this annex we provide a brief summary of the literature which has attempted to describe and derive an 'optimum' minimum wage.

As the UK and other countries raise their minimum wages to higher levels, discussion of what is the 'right' level for the minimum wage becomes more relevant. Over the year, there have been a number of discussions of the 'optimal' minimum wage. They rely on making assumptions about how the labour market works, as well as deciding what is to be optimised, for example what weight to place on employment versus wages, and how to weight the benefits going to different groups, whilst others consider how minimum wages interact with the tax and benefit system. This box summarises the argument contained in some of these studies.

Economic models attempting to define an "optimal" minimum wage rate usually account for the complexity of the employment effects that an introduction - or rise in minimum wage - implies. Dickens, Machin and Manning[99], for example, state that once faced with an increase in the minimum wage, firms may find themselves in three different "regions" with respect to the new wage floor: demand-constrained, supply-constrained or unconstrained. In the first case, demand-constrained firms are firms for which the minimum wage is always binding and who are forced up their demand curve by a minimum wage increase, which results in employment losses. The second regime, covering supply-constrained firms, are characterised by firm market power and where an increase in the wage floor acts as a countervailing force to reduce such power, so they pay higher and productively viable wages that can generate employment gains. Finally, unconstrained firms pay wages considerably higher than any of the minimum wage rates even when exerting labour market power and hence, in absence of reallocation effects, their employment remains unchanged. Figure 1 from the recent Berger, Herkenoff and Mongey study (copied below) is a good illustrative example of the three "regions" in which a firm can be situated when a minimum wage is set (or increased) and how it can lead to employment losses, gains and reallocation simultaneously in the same labour market depending on the composition and labour market power of the firms operating in it[100].

99 R. Dickens, S. Machin and A. Manning, 'The Effects of Minimum Wages on Employment', January 1999
100 D. Berger, K. Herkenhoff and S. Mongey, 'Minimum wages, Efficiency and Welfare', January 2022



In order to gauge and estimate the overall net direction of employment effects of minimum wages required for an 'optimal' minimum wage level, recent research relies on models of the labour market ('general equilibrium' models) which include assumptions about various margins of the adjustment and degrees of competitiveness in the labour market. Ahlfeldt, Roth and Seidel propose a spatial equilibrium model in the context of Germany's introduction of a federal minimum wage which allows for firms with different levels of productivity and variations in monoposonistic labour market power by exploring individual preferences for residence and workplace.[101] In a similar spirit, Berger, Herkenoff and Mongey study the effect of federal minimum wages in the US within a general equilibrium model which also allows for heterogeneity in firms productivity but adds heterogeneity of workers in productivity and other dimensions. Crucially, the modelling also assumes a departure from perfectly competitive labour markets with the introduction of labour market power by firms that can be described as an oligopsonistic labour market where firms compete over workers.

Both models are able to produce results in line with some of the evidence previously debated: a lack of aggregate disemployment effects at lower minimum wage levels, a reallocation of workers from less productive firms to more productive firms, and a positive effect on hiring, retention and turnover (not explicitly within firms but rather across firms). Ultimately, in both cases, the calculation of an 'optimal' level of minimum wage implies balancing the efficiency and redistribution gains resulting from eroding

101 G. Ahlfeldt, D. Roth and T. Seide 'Optimal Minimum Wages', January 2022

the labour market power of unconstrained and supply-constrained firms versus the efficiency and redistribution losses of forcing firms to be demand-constrained in labour markets with considerably different levels of labour market power.

The conclusions of the types of models describing the "optimal' minimum wage level need to be caveated against a range of departures from the model assumptions, and their interaction with other labour market policies that affect low wage workers. This is an active research field. The main message for policy makers is perhaps not so unfamiliar to those working in this field: testing small increments on national level minimum wages, and carefully evaluating employment effects, together with other modes of adjustment to minimum wage changes, can usefully inform discussions of optimal minimum wages, and possible variations in mandated wage floors.

Reports published as part of The Economy 2030 Inquiry to date

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2. Levelling up and down Britain: How the labour market recovery varies across the country
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