

**Table A2.1** Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
<p>M. Bryan and M. Taylor (Institute for Social and Economic Research, University of Essex)</p>	<p>To analyse household characteristics of minimum wage recipients across the household income distribution.</p>	<p>The British Household Panel Survey (BHPS) (wave 12) was used to: assess the characteristics of minimum wage households (single/multi-earner, marital status, number and age of children, housing tenure and head of household's personal characteristics); examine the position of minimum wage households in the overall household income distribution; and project hourly wages and wage profiles in order to estimate the predicted gains from the October 2003 uprating.</p>	<p>Looking at the income distribution of all households, the researchers found that minimum wage households were not concentrated at the bottom (those at the bottom consisted mainly of pension and benefit recipient households). Minimum wage households were, however, concentrated at the bottom of the income distribution of working-age households, and of working-age households in which at least one individual was in work.</p> <p>Equal proportions of minimum wage households, all working households and all households had female heads of household. Heads of minimum wage households were, however, more likely to be older and less educated than heads of other working households.</p> <p>Minimum wage households were more likely to contain children, although these children tended to be older than those in other working households. Minimum wage households typically contained multiple earners and were far more likely than other working households to contain three or more earners. The spouse of the head of household, or other adult members of the household, were most likely to receive the minimum wage.</p> <p>Estimated wage growth profiles suggested that, on average, minimum wage households gained £6.23 per week from the 2003 uprating.</p>

**Table A2.1** Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
<p>E. Cronin and M. Thewlis (IRS Research)</p>	<p>To investigate firms' adjustments to the National Minimum Wage, including the effect on pricing decisions, profitability, employment, productivity and training.</p>	<p>The project consisted of three stages: face-to-face discussions with four employer trade associations and the Trades Union Congress to identify key issues to explore during the research; postal survey of 4,000 small businesses seeking their views on the minimum wage and information on its impact on their business; and 53 interviews with firms across the UK, of which 50 employed fewer than 100 employees.</p> <p>The sectors covered by this study were: cleaning and facilities management; catering and food processing; security; packing and distribution; hospitality; hairdressing; retail; and small office based companies.</p>	<p>Employers were generally positive about the introduction of the National Minimum Wage but the October 2003 and 2004 upratings were causing concern. Employers found it difficult to isolate the impact of the minimum wage from other employment legislation but, among the 265 respondents to the questionnaire, nearly three-fifths reported that the minimum wage had affected pay levels and over a half reported an effect on profits.</p> <p>Results from the interviews indicated that the nature of the businesses made it difficult for employers to substitute labour with machinery or to make changes to working practices to improve productivity. Instead, among interviewed firms, one-tenth of employers made changes to their pay scales and structures as a coping mechanism for the minimum wage. Just under two-fifths of employers reported reducing staff hours and a similar proportion had reduced staffing levels. In the hairdressing sector, employers were either reluctant to hire young staff or trainees, or had cut down on the number of trainees employed in recent years.</p> <p>Overall, businesses operating in consumer markets (cafes, hotels etc.) were able to increase their prices but those operating in business-to-business markets (e.g. packing, cleaning and security) were unable to do so. Employers reported that where they were able to raise prices, this did not cover the full costs of increases caused by the minimum wage and other legislation.</p>

**Table A2.1** Low Pay Commission Research Projects

Contractor	Aims and Objectives	Methodology	Results
R. Croucher (Cranfield University) and G. White (University of Greenwich)	Research on the enforcement of the National Minimum Wage.	The Inland Revenue contacted over 1,000 people involved in National Minimum Wage investigations inviting them to take part in the research. This resulted in a total of 70 semi-structured telephone interviews (43 with employers and 27 with workers and ex-workers) and 12 follow-up face-to-face interviews. None of the employers in the sample had had an enforcement notice issued against them.	<p>The enforcement process was working reasonably well but there were specific areas of concern. Overall, both employers and workers found the approach taken by the Inland Revenue’s compliance officers to be courteous and helpful. Many employers claimed to be unclear about the detail of the minimum wage and hence had underpaid through ignorance rather than intent. For most employers the Inland Revenue’s visit had come as a surprise and most seemed unaware of the penalties involved in non-payment of the minimum wage. Over half the employers had pay records that were deficient in some way and a major benefit of the process was seen as the advice given by the Inland Revenue in improving these. Most employers claimed not to have experienced any difficulty in meeting the arrears owed but a minority had.</p> <p>Awareness of the existence of the National Minimum Wage was generally good among workers but many were not clear, before the enforcement process, if it applied to them. Their most common source of information was through family and friends. Both workers and employers felt that there needed to be greater publicity given to the detail of the minimum wage due to the complexity of the regulations.</p> <p>Over half the workers had approached their employer prior to a complaint but had received a negative response. Some had decided to resign before making a complaint. All but one worker had received arrears payments following enforcement action, but it was not always clear that they had received their full entitlement. In some cases, employers had pressurised workers into accepting less than the amount owed.</p> <p>A key criticism of the process by both employers and workers was the length of time taken to complete an investigation. Some workers also had concerns about the confidentiality of the process.</p>

**Table A2.1** Low Pay Commission Research Projects

<p>R. Dickens (Queen Mary, University of London and Centre for Economic Performance, London School of Economics) and M. Draca (Centre for Economic Performance, London School of Economics)</p>	<p>To estimate employment effects of the 2003 National Minimum Wage uprating.</p>	<p>The researchers used Quarterly Labour Force Survey (QLFS) data (October 2002–March 2004) to provide revised estimates of the coverage of the 2003 uprating. They used a difference-in-difference analysis of employment transitions out of employment among affected low-paid workers (the treatment group) and their counterparts further up the distribution (the control group). They also analysed transitions into low-pay employment.</p>	<p>The hourpay variable (weekly earnings divided by weekly hours) in the LFS continues to be highly ineffective in measuring the incidence of minimum wage affected workers. Revised estimates of the incidence of affected workers indicated that the 2003 uprating affected fewer workers than the initial introduction of the minimum wage or the 2001 uprating. The analysis revealed insignificant negative effects on the employment retention rates of all adults and, most notably, male workers. And analysis of employment inflows uncovered insignificant negative effects for females and some potential ‘noise’ in the estimates for males (due to lower sample numbers). But the results were not statistically significant from zero. Arguably the lower coverage of the 2003 uprating reduced the probability of observing significant disemployment effects.</p>
<p>F. Galindo-Rueda (Centre for Economic Performance, London School of Economics) and S. Pereira (Yale University and University College London)</p>	<p>To assess the impact of the minimum wage on productivity and unit labour costs in low-paying sectors.</p>	<p>The researchers used data from the New Earnings Survey (NES) (to assess workers’ exposure to the minimum wage) and the Annual Business Inquiry (ABI)/Annual Respondents Database (ARD) (for business level information). Information from firms in the ABI was linked to individual workers in the NES to calculate a measure of the firm’s exposure to the minimum wage. Firm-level exposure by industry and region was also considered. Firm entry and exit was analysed using information from the Inter-departmental Business Register (from which the ABI is drawn). They used difference-in-difference methodology for their analyses.</p>	<p>Using a matched employer-employee data set, the results showed that wages and labour productivity were slightly positively affected in service sector firms more exposed to the introduction of the minimum wage, but there was no evidence of employment or total factor productivity effects. No effects were found in the manufacturing sector. Evidence was found of employment growth being significantly lower in the 1998–1999 period for service sector firms in industry sectors and regions expected to be more affected by the minimum wage. Employment did not decline, but grew at a lower rate. This lower employment growth was paralleled by faster growth in unit labour costs, implying a labour demand elasticity of about –0.5. Positive, but barely significant, effects of minimum wage exposure on labour productivity and capital/labour ratios were also found. The researchers showed that for most low-paying sectors, employment and business creation was slower in areas of the country where wages needed to adjust most due to the introduction of the minimum wage, suggesting that growth was slower than it would have been in the absence of the minimum wage. The analysis suggested that firms thought to be most affected by the introduction of the minimum wage responded by reducing the speed at which they hired new workers. This appeared to have led to some modest, but not entirely robust, productivity gains. It also suggests that the minimum wage might have a slight disemployment effect that could go unnoticed (in absolute terms) when the level of the minimum wage was low and economic conditions benign.</p>

**Table A2.1** Low Pay Commission Research Projects

<p>Incomes Data Services Ltd</p>	<p>To monitor the impact of the 2003 and 2004 upratings of the minimum wage in a number of low-paying sectors.</p>	<p>Detailed surveys of private nurseries and the hotels, leisure, pubs and restaurants and retail sectors.</p>	<p>The minimum wage was increasingly the key determinant of pay rates across low-paying sectors. A higher proportion of firms needed to increase their wage levels to meet the October 2003 upratings, and even more will have needed to make moves to meet the October 2004 upratings. In addition some companies were operating explicit policies to keep their lowest pay rates above the minimum wage. The minimum wage upratings have, however, only had a limited impact on the skill mix or on employment levels in companies.</p> <p>Companies remained divided over the need to increase pay rates further up pay structures to maintain differentials with the lowest grades. In some cases narrowed pay differentials had led to major changes in pay structures. The October 2003 upratings also closed pay differentials in companies with location-based pay systems.</p> <p>There was evidence that the minimum wage had led to an increasing number of nurseries and pubs and restaurants using age-related pay. In the retail sector, however, companies were moving in different directions.</p>
<p>S. Machin (University College, London and Centre for Economic Performance, London School of Economics), M. Draca and J. Van Reenen (Centre for Economic Performance, London School of Economics)</p>	<p>To research the impact of the National Minimum Wage on profits and prices.</p>	<p>FAME (Financial Analysis Made Easy) data were used to investigate the impact of the minimum wage on profitability. Industry-level variables were drawn from the LFS and information on consumer prices from retail price index (RPI) data.</p> <p>Used difference-in-difference estimation to investigate the evolution of wages and profit margins before and after the introduction (and subsequent upratings) of the minimum wage at the sector and business level.</p> <p>Used industry and sector data to analyse price impacts.</p>	<p>The research showed that profitability fell in firms that were most affected by the introduction of the minimum wage. However, low wage firms were not forced out of business by the higher wage costs resulting from the minimum wage.</p> <p>Absence of data on firm level prices meant that the researchers had to rely solely on an industry or product level analysis. The researchers were unable to detect evidence of higher wage costs being passed on in terms of higher prices.</p> <p>The researchers found that being a low wage firm, rather than being located in a low wage industry, mattered for the wage impact of the minimum wage.</p>

**Table A2.1** Low Pay Commission Research Projects

F. Neathey, H. Ritchie and M. Silverman (Institute for Employment Studies)	To research the employment of young people in the retail and hospitality sectors.	<p>The project consisted of two stages: a postal survey and case studies. A postal survey was distributed to a random sample of 2,000 employers in the retail and hospitality sectors and 216 replies were received providing basic employment and wage data. From the respondents to the postal survey 15 case studies were selected (5 in retail and 10 in hospitality), comprising firms of various sizes and employing a mixture of young workers such as students and work-based trainees. Interviews were held with the individual responsible for the employment and pay of young people in the establishment and also with some young workers in all but one of the establishments.</p>	<p>There was little evidence of a link between the minimum wage and decisions to employ young workers of various ages. Case study findings indicated that the employment of young workers was often based on pragmatic considerations, such as the availability of labour. Some employers, however, showed a preference for slightly older workers compared with those in the lowest age group (16–17) and were often seeking to increase the proportion of slightly older workers in their workforce.</p> <p>The range of job roles available to young people seemed to increase with age. This was partly a result of legal restrictions in respect of the employment of workers under 18 in certain areas, but also due to employer perceptions of the skills and attributes of particular age groups.</p> <p>The majority of case study establishments and about three-fifths of respondents to the survey operated some form of age-related pay system. But this was often limited to workers aged under 18. Concentration in particular low-paying occupations was an important factor in the low pay rates received by the youngest workers. Trainee status also affected the pay rates of young people, but in most cases employers were not paying these workers below minimum wage rates.</p>
--	---	---	---

**Table A2.1** Low Pay Commission Research Projects

<p>M. Ram (de Montfort University), P. Edwards (University of Warwick) and T. Jones (de Montfort University)</p>	<p>Research on the relationship between the minimum wage and the informal economy.</p>	<p>Detailed interviews with 17 small firms in the clothing and catering sectors where 'informality' is common. Evidence from employers and employees was collected. Four firms that were minimum wage compliant were included to enable comparisons with those that did not comply. Five firms had taken part in earlier studies and provided an insight into the experiences of small firms in the 'informal' economy in the light of the existence of the National Minimum Wage for five years.</p>	<p>Market conditions were different in the two sectors, with intense competition between firms characterising restaurants and overseas competition being key in clothing. Since the introduction of the minimum wage little had changed in terms of the firms' attitudes to compliance. Low pay was still common and pay setting informal, with no clear process of firms moving towards compliance with the minimum wage as a result of experience.</p> <p>Market conditions and 'ability to pay' were key factors in determining whether the firms complied with the minimum wage. Changes to the minimum wage did not directly affect firms' pay practices. The minimum wage acted more as a broad benchmark. Operating outside the minimum wage had consequences for firms' tax and other practices, and this connected set of practices may have tightened their position outside the formal sector of the economy.</p> <p>Changes in labour market opportunity, rather than the minimum wage specifically, affected recruitment and retention. However, at the same time new groups of workers, notably recent immigrants, filled the gap.</p> <p>There were various specific reasons leading compliant firms to pay at National Minimum Wage levels or higher. Underpinning this was market conditions that allowed them to do so. For most, non-compliance was incompatible with their desire to grow their business. Firms recognised the consequential benefits of paying the minimum wage or above, for example, the ability to attract more skilled and committed workers.</p> <p>Although the majority of employers in the research were non-compliant with the minimum wage, many were concerned about the consequences if detected. Alleged inability to pay and the perceived remote likelihood of detection were important factors in explaining non-compliance. Under-reporting hours worked and keeping false records were common.</p>
<p>H. Robinson (Cardiff Business School, Cardiff University) and J. Wadsworth (Centre for Economic Performance, London School of Economics)</p>	<p>To research the impact of the minimum wage on the incidence of second job holding.</p>	<p>The researchers used difference-in-differences estimation on a panel of individuals matched against successive LFS to estimate the impact of the minimum wage on the incidence of second job holding.</p>	<p>The researchers found that the lower paid were more likely to hold second jobs. There was little evidence of any reduction in second job holding resulting from the introduction of the minimum wage, although many second job holders received a relatively large increase in their hourly and weekly wages.</p> <p>Furthermore there was little evidence that hours worked in either the first or second jobs had changed in the immediate period after the introduction of the minimum wage.</p>

**Table A2.1** Low Pay Commission Research Projects

P. Sloane, P. Murphy, M. Jones and R. Jones (University of Wales, Swansea)	To analyse flows into and out of the National Minimum Wage.	<p>The researchers use the LFS (1999–2003) and BHPS (1999–2002) to model transitions between different market states. Looking at four starting positions (employed at minimum wage, employed above minimum wage, unemployed or economically inactive) and using LFS data, the researchers estimated the probability of being in each of those four states after five quarters, for the youth Development Rate and adult rate respectively. The LFS and BHPS were also used to assess an individual's propensity to be on the minimum wage depending on certain characteristics (such as age and gender) and estimate average duration on the minimum wage.</p>	<p>The researchers found that about 44 per cent of those at or below the minimum wage remained in that state after twelve months, with 40 per cent moving into higher paying jobs, 12 per cent becoming inactive and 4 per cent exiting to unemployment. Movements into employment paid at or below the minimum wage from other labour market positions were small in relative terms.</p> <p>There was some state dependence (i.e. the individual's labour market position in the current period depended in part on their position in the previous period). Those most at risk of being paid at or below the minimum wage included women, the less qualified, non-whites, those with shorter job tenures, part-timers, non-unionists, the less skilled and those living in Wales, Scotland and the West Midlands.</p> <p>It was also found that those with qualifications, mortgages, permanent contracts or employed in certain industries (in particular distribution, hotels and restaurants) were more likely to move out of minimum wage employment into higher paid jobs. The reverse was found for those with a disability, part-timers or private sector workers (particularly in small firms).</p> <p>The exit probability from the minimum wage was estimated at 0.68 and it was calculated that the average duration on minimum wage jobs was about 1.5 years.</p>
M. Stewart (University of Warwick) and J. Swaffield (University of York)	To research the impact of the minimum wage on working hours for low-paid employees.	<p>The researchers used difference-in-difference estimation on a panel of individuals matched against successive NES and LFS data to estimate the impact of the introduction of the minimum wage and subsequent upratings on the working hours for low-paid employees.</p>	<p>The researchers found that the 'lagged' impact of the minimum wage on working hours was more important than the 'initial' effect. Initial effects were generally small and insignificant in most cases.</p> <p>The evidence suggests that the introduction of the minimum wage led to a reduction in the paid hours of both male and female low-wage workers. The NES total effect (initial plus lagged) estimates indicated a reduction of between one and two basic hours per week for both men and women. Paid overtime hours for women were also reduced but there was a negligible effect on paid overtime hours for men.</p> <p>Estimates using the LFS were typically less significant. The LFS estimated total effects on basic hours were greater for men and lower for women than the corresponding NES estimates.</p>