

Institution: University of Sussex		
Unit of Assessment: 16 – Economics and Econometrics		
Title of case study: Improving the earnings of low-paid workers in the UK		
Period when the underpinning research was undertaken: 2007 – 2020 (ongoing)		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Richard Dickens	Professor of Economics	Jan 2007 – present
Period when the claimed impact occurred: May 2014 – Dec 2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact <p>Research by Richard Dickens paved the way for the UK's introduction of a National Living Wage (NLW) in 2016, raising the earnings of over 1.6 million workers. As an independent member of the Low Pay Commission, Dickens has provided evidence to support policy recommendations, including the Government's commitments to lowering the age of eligibility for the NLW to 21, and to implementing faster NLW increases for around 220,000 people aged 21-24 from April 2020. Dickens' research also underpinned a Treasury report, leading to the 2020 decision to raise the NLW from 60% to two-thirds of median pay by 2024 (affecting 4.7 million workers). His work has also influenced South Africa's introduction of a national minimum wage (affecting 6 million workers).</p>		
2. Underpinning research <p>The UK's National Living Wage (NLW) was implemented in April 2016 at a higher rate than its predecessor, the National Minimum Wage (NMW), with the aim of reaching 60% of median earnings by 2020. In March 2020, the Government announced its intention to abolish low pay, setting a considerably higher target of two-thirds of median earnings by 2024.</p> <p>Minimum wages can have adverse effects on the labour market, so robust research is needed to ensure they are set at an appropriate level. Richard Dickens' early research contributed to the emerging consensus that minimum wages need not destroy jobs providing they are not set too high. He has continued to provide careful evaluations of the impact of raising minimum wages, particularly among more vulnerable groups, such as younger and part-time workers.</p> <p>[R1] analyses data on individuals' employment histories between 1994 and 2010, comparing job retention among workers directly affected by the annual NMW increases with a control group of workers paid slightly more than the NMW. Among full-time workers, the researchers found little evidence of job loss from annual NLW increases. But for the most vulnerable workers (part-time women), the NMW seems to be associated with reductions in employment retention. These negative impacts were evident both when the NMW was introduced and during the financial crisis.</p> <p>Dickens' work for the Low Pay Commission's 2010 report [published as R2] investigates the impact of NMW increases at certain ages, focusing on individuals who receive a 20% increase in the minimum wage on qualifying for the adult rate at age 22. The study uses a 'regression discontinuity' design to analyse the labour market effects of the legislated difference that existed between 1999 and 2009 in the NMW for 21- and 22-year-olds. The results suggest a 3-4% increase in the employment rate of low-skilled individuals as a result of the higher NMW paid at age 22, explained in part by declines in men's unemployment and women's inactivity. The study's conclusion – that there would be little negative effect on employment from paying the adult minimum wage to 21-year-olds – informed the UK Government's decision to accept the LPC's recommendation to reduce the age at which the adult rate be paid from 22 to 21 in October 2010.</p>		

[R3] considers the employment impacts of NMW rises between 2001 and 2006, a period when the NMW rose substantially in excess of average earnings. The report presents results on job retention based on a similar approach to R1, together with local labour market analysis using spatial variation in the impact of the minimum wage, as the NMW influences wages more strongly in low-wage areas than in high-wage areas. It finds faster wage growth in the higher impact areas but no evidence of any detrimental impacts on employment or hours of work.

[R4] builds on this approach to examine the NLW's introduction in 2016 and subsequent increases up to 2018, a period in which it rose by over 16%. The research finds faster increases in wages in lower-wage areas of the UK but, again, no evidence of employment change.

These studies, along with [R5] and [R6], which examine the impact of minimum wages during recessions and the impacts on wage inequality, have repeatedly fed into LPC deliberations and reports, as well as into the Treasury's report on minimum wages.

3. References to the research

- R1** Dickens, R., Riley, R. and Wilkinson, D. (2015) *A re-examination of the impact of the UK national minimum wage on employment*. *Economica*, 82 (328). pp. 841-864. ISSN 0013-0427 <https://doi.org/10.1111/ecca.12158> Presented to the LPC Research Workshop Sep 2011.
- R2** Dickens, R., Riley, R. and Wilkinson, D. (2013) *The UK minimum wage at 22 years of age: a regression discontinuity approach*. *Journal of the Royal Statistical Society: Series A*, 177 (1). pp. 95-114. ISSN 1467-985X <https://doi.org/10.1111/rssa.12003> Presented to the LPC Research Workshop, September 2009.
- R3** Dickens, R., Riley, R. and Wilkinson, D. (2009) *The employment and hours of work effects of the changing national minimum wage*, report prepared for the Low Pay Commission. <https://webarchive.nationalarchives.gov.uk/20130701173954/http://www.lowpay.gov.uk/lowpay/research/pdf/NMW12.pdf> Presented to the LPC Research Workshop, September 2008.
- R4** Dickens, R. and Lind, K. (2018) *The Impact of the Recent Increases in the Minimum Wage on the UK Labour Market: An Area-based Analysis*. Presented to the LPC Research Workshop Sep 2018 and to the HM Treasury Roundtable on the Review of Higher Minimum Wages, May 2019. Available on request.
- R5** Dickens, R. and Dolton, P. (2011) *Using Wage Council Data to Identify the Effect of Recessions on the Impact of the Minimum Wage*. London: Low Pay Commission, Technical Report. <https://webarchive.nationalarchives.gov.uk/20130701174140/http://www.lowpay.gov.uk/lowpay/research/pdf/DickensDoltonFinal.pdf> Presented to the LPC Research Workshop, September 2010.
- R6** Butcher, T., Dickens, R. and Manning, A. (2012) *Minimum Wages and Wage Inequality: Some Theory and an Application to the UK*. London: LSE, Centre for Economic Performance Discussion Paper No. 1177: <http://cep.lse.ac.uk/pubs/download/dp1177.pdf> Presented to the LPC Research Workshop, September 2011.

4. Details of the impact

Based on his many years of experience studying the economic effects of minimum wages, as well as the considerable impact of his research on policy decisions, Dickens was appointed as an independent member of the Low Pay Commission (LPC) in May 2014 and later reappointed until May 2021. The LPC, which is sponsored by the Department for Business, Energy and Industrial Strategy (BEIS), is an independent public body that provides recommendations to Government each year on appropriate increases in the NLW, the NMW and the age-specific minimum rates.

In this role, Dickens has brought evidence from his research to inform LPC decisions. He also commissions research from others and, as one of two academics on the LPC, provides critical evaluation of methods and findings. He has been instrumental in furthering the in-house research capabilities of the LPC secretariat, providing advice and training on the development of econometric analysis.

Dickens' work has paved the way to substantial increases in the NMW and to the introduction of the NLW in 2016. In 2013, the Government asked the LPC to consider the conditions for a faster increase in the minimum wage. In its 2014 report, the LPC highlighted Dickens' work, explaining that **R3** "found no effect of the upratings between 2001 and 2006" and that **R1**, "covering the entire period from 1999-2011...found no adverse effects on employment" [**S1**, p72]. Sir David Norgrove, Chair of the LPC between 2009-2017, confirms the importance of Dickens' research in his written testimonial:

"Professor Dickens has made an important contribution to the work of the LPC both through his academic research on minimum wages and since 2014 directly as a member of the Commission. His research contributed to a shift in the prevailing view that minimum wages were bad for employment and fed into LPC decision making over a number of years. Professor Dickens' contribution has been highly influential in shaping a number of the recommendations on changes to minimum wage policy that were subsequently adopted by the UK Government...This research, in part, fed into our decision in 2014 to recommend to Government that we enter a new phase with progressive real increases in the minimum wage. This paved the way for the Chancellor to announce the National Living Wage in 2015 with an ambitious target for the minimum wage of 60% of median pay." [**S2**]

In late 2013, Dickens contributed to a review led by Sir George Bain (former LPC chair) into the future of the NMW. The review, published by independent think-tank the Resolution Foundation [**S3**], cited **R1** and **R5** and recommended that the minimum wage be increased to 60% of median earnings. In July 2015, the Government adopted this recommendation with the introduction of the NLW. The Treasury's 2015 report, which outlines the new NLW, links this decision directly to the Bain Review [**S3**] and to a summary of existing research from the 2011 LPC report (in which **R2**, **R3** and **R5** are all discussed). It states: "The consensus of the research findings on the impact of the NMW in the UK is that it has not significantly adversely affected employment" [**S4**]. Since 2016 the NLW has increased by more than 30%, raising the pay of 1.6 million workers. Low-paid workers have benefited from earnings growth that is double that of the average worker [**S6**].

Following a review of the structure of the youth rates in 2019, the LPC recommended lowering the age of eligibility for the NLW from 25 to 21 in two steps. In September 2019, the Chancellor announced that the age of eligibility would fall to 23 in April 2021 with a plan to lower it to 21 in 2024. Dickens' research on the age structure of the minimum wage [**R2**] played a crucial role in shaping this recommendation, as a testimonial letter from Bryan Sanderson, Chair of the LPC, corroborates:

"Richard's work in association with Riley and Wilkinson on the impact of the minimum wage on the younger workers accelerated progress towards implementation of the agreed two step reduction in the age threshold of the NLW from 25 to 21." [**S5**]

In preparation for the age threshold reduction, the LPC recommended a 6.5% increase in the rate for 21- to 24-year-olds to close the gap with the NLW. As such, around 220,000 young workers received a faster pay rise than they otherwise would have in April 2020 [**S6**, table 9.2]. The testimonial letter from Harry Ravi, Head of Labour Market Analysis at BEIS, confirms the influence of Dickens' research:

"As a consequence of taking onboard his work, in September 2019 the Government announced the lowering of the National Living Wage age thresholds from 2021, which resulted in a faster increase in the 21-24 National Minimum Wage in April 2020 in order to close the gap with the adult rate." [**S7**]

Despite concerns about the youth labour market in the pandemic, Dickens' research has been key to the LPC's recommendation that the Government pushes ahead with lowering the age of eligibility. The LPC's 2020 report [**S8**] states that Dickens et al [**R2**] "is particularly pertinent evidence as we will again be changing the age threshold of the main rate in a time of economic uncertainty." The rate for 23- to 24-year-olds will therefore rise by a further 8.7% in April 2021.

In March 2020, following the Treasury's review of minimum wages led by Arin Dube (University of Massachusetts), the Chancellor announced the Government's intention to abolish low pay and set a significantly higher NLW to reach two-thirds of median pay by 2024, increasing the earnings of up to 4.7 million workers. Dickens' work fed directly into this review, as Harry Ravi attests:

"His work with Professor Arin Dube proved important in leading Government's decision in March 2020 to set a new target for the NLW... Dickens presented to BEIS and HM Treasury officials and Professor Dube about the impacts of minimum wages... bringing to bear his deep and specific expertise around methodologies and the low pay context within the UK". [S7]

The report of Dube's review [S9] (which cites R1, R3, R5 and R6) concludes that "the evidence to date is consistent with exploring a higher post-2020 NLW up to two-thirds of median hourly earnings".

Dickens' research also influenced South Africa's decision to introduce a national minimum wage in May 2018, raising the pay of 6 million workers. As a globally-recognised expert on minimum wages, Dickens was invited by the country's government to speak at a workshop in June 2015. Following the announcement of South Africa's minimum wage, [text removed for publication] at the International Labour Organization thanked Dickens for his participation, highlighting the value of his contribution in the decision-making process:

"The experiences presented at this workshop kept being referred to during the intense and sometimes tense deliberations that went on since then at NEDLAC [South Africa's National Economic Development and Labour Council] between the government, the workers, the employers and civil society... I take this opportunity to thank you very much again for your greatly appreciated contribution to this process." [S10]

5. Sources to corroborate the impact

S1 Low Pay Commission Report (2014)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/288847/The_National_Minimum_Wage_LPC_Report_2014.pdf

S2 Testimonial from Sir David Norgrove, Chair of the LPC 2009 – 2017

S3 More than a minimum: The Resolution Foundation Review of the Future of the National Minimum Wage: The Final Report (Bain Review) (2014)

https://www.resolutionfoundation.org/app/uploads/2014/03/More_than_a_minimum1.pdf

S4 HM Treasury Summer Budget Report (2015)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf

S5 Testimonial from Bryan Sanderson, Chair of the LPC 2017 – present

S6 National Minimum Wage. Low Pay Commission Report (2019)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856590/LPC_Report_2019.pdf

S7 Testimonial from Harry Ravi, Head of Labour Market Analysis, BEIS.

S8 Low Pay Commission Report (2020)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942062/LPC_Report_2020.pdf

S9 Impacts of minimum wages: Review of the International Evidence (2019)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844350/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf

S10 Email from [text removed for publication] at the International Labour Office, thanking Dickens for his participation in the 2015 workshop.