

dti

**GOVERNMENT EVIDENCE TO
THE LOW PAY COMMISSION ON
THE ECONOMIC EFFECTS OF THE
NATIONAL MINIMUM WAGE**

NOVEMBER 2006

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Executive summary

The Government welcomes this opportunity to present the Low Pay Commission with its economic evidence on the National Minimum Wage in its eighth year of operation. This document forms the second half of the Government's submission, covering the economic effects of the National Minimum Wage. It should be read in conjunction with the previous Government submission on the non-economic evidence.

It is widely agreed that the National Minimum Wage has been successfully introduced and it is now firmly established as a key element of the UK labour market. The Government is determined to keep the National Minimum Wage under close review, and has reviewed the developing evidence of its economic impact. The main findings of the Government's assessment on the economic evidence are:

Macroeconomic conditions

Since the introduction of the minimum wage in 1999 the UK labour market has fared well, with the level of employment increasing by almost 2 million. UK unemployment levels have risen somewhat over the last six to twelve months. But the level of employment remains high and has been rising. The softening probably reflects the slowdown in overall economic growth in 2005. Most independent forecasts are for growth to pick up in 2006 and 2007, to rates of growth at or above trend. This outlook suggests a modest improvement in the labour market over the coming 12-18 months.

Evidence on pay

UK academic research to date has not found any firm evidence that the adult minimum wage has reduced employment rates or raised unemployment; this is consistent with the available international evidence.

The minimum wage as a percentage of average earnings, termed the 'bite', has risen since its introduction. The current level of the 'bite' looks to be around average for the OECD economies.

An increasing proportion of employees are earning hourly wage rates 'near' the minimum wage as the NMW has risen. As discussed in previous years' economic submissions, there is evidence that the National Minimum Wage has significantly compressed the lower end of the earnings distribution, with an 'upward ripple' effect reaching up to around a fifth of the workforce.

Developments in low-paying industries

Since the introduction of the minimum wage in 1999 the number of jobs in the low-paying sectors has increased by 512,000 (6.5 per cent). However, job growth in the low-paying sectors declined in 2005 and as of Q2 2006 the total number of jobs in these sectors continued to be slightly lower than a year earlier. The most recent data indicates that they may not be continuing to decline further, although more data will be required to be sure.

A significant part the recent fall in low-paid jobs has been due to falling jobs in retail and hotels & restaurants. To a large extent these falls are likely to reflect the slowdown in consumer spending in 2005, which contributed to the slowdown in overall economic growth. As consumer spending picks up, it would not be surprising to see some recovery in low-paid private sector jobs.

The labour market for younger workers

The effects of the NMW on younger workers needs to be considered carefully to avoid damaging the incentives between education and work and to ensure the employment prospects of younger workers are not adversely affected. The employment rate of 18-21 year olds has fallen since 2000, although the unemployment rate remains lower than at the time of the introduction of the minimum wage. The labour market position of 21 year olds remains more similar to that of younger workers than to those aged 22 and above.

The introduction of a national minimum wage for 16 and 17 year olds in 2004 does not appear to have had an adverse impact on participation in education or training. Whilst employment rates of 16 and 17 year olds have fallen and inactivity rates have risen both before and after the introduction of the 16-17 year minimum wage, this has been associated with a rise in the proportion of young people entering education.

Other issues

The Government has proposed increasing the current statutory minimum holiday entitlement from four weeks to 5.6 weeks (maximum 28 days), to implement its commitment to make paid time off for bank holidays additional to the current four-week holiday entitlement. The introduction of the increased holiday would be phased, with the entitlement increasing to 4.8 weeks (equivalent to an additional four days' holiday for someone working five days a week) from October 2007 and the remaining increase being introduced in October 2008 at the earliest. There is likely to be some overlap between those benefiting from the minimum wage and those who will benefit from the extension of leave. The DTI has commissioned a survey to gather data that will help in estimating the costs more accurately. We will provide the LPC with further information in advance of their decision as it becomes available.

SECTION 1

Macroeconomic conditions

Since the introduction of the minimum wage in 1999 the UK labour market has fared well, with the level of employment increasing by almost 2.0 million. UK unemployment has risen somewhat over the last six to twelve months. But the level of employment remains high and has been rising. The softening probably reflects the slowdown in overall economic growth in 2005. Most forecasts are for growth to pick up in 2006 and 2007, to rates of growth at or above trend. This outlook suggests a modest improvement in the labour market over the coming 12-18 months.

Macroeconomic conditions

The Government's latest assessments on the outlook for the UK economy will be published as part of the Government's Pre-Budget Report. Copies will be provided to the Low Pay Commission on publication.

Economic growth

Overall economic growth cooled in 2005, to an annual rate of 1.9 per cent, down from 3.3 per cent in 2004. The slowdown was in part driven by a decline in consumer spending, which fell from a growth rate of 3.5 per cent in 2004 to 1.3 per cent in 2005. The slowdown in growth partly reflected the effects of a slowdown in housing market activity and the impact of higher energy prices on disposable income.

However, since the start of 2006 growth has picked up markedly. Annual GDP growth averaged 2.5 per cent over the first half of 2006, and in the third quarter output is estimated to have increased by 0.7 per cent. Initially the strengthening in growth was driven by business investment. But there are signs that after its relative weakness in 2005, consumer spending is also strengthening: consumption increased by 1.3 per cent in the second quarter of 2006, while retail sales data suggest that recovery has continued into the second half the year.

Looking ahead, independent forecasters (Table 1) are expecting that growth in 2006 and 2007 will be around the long-run average growth rate of the economy.

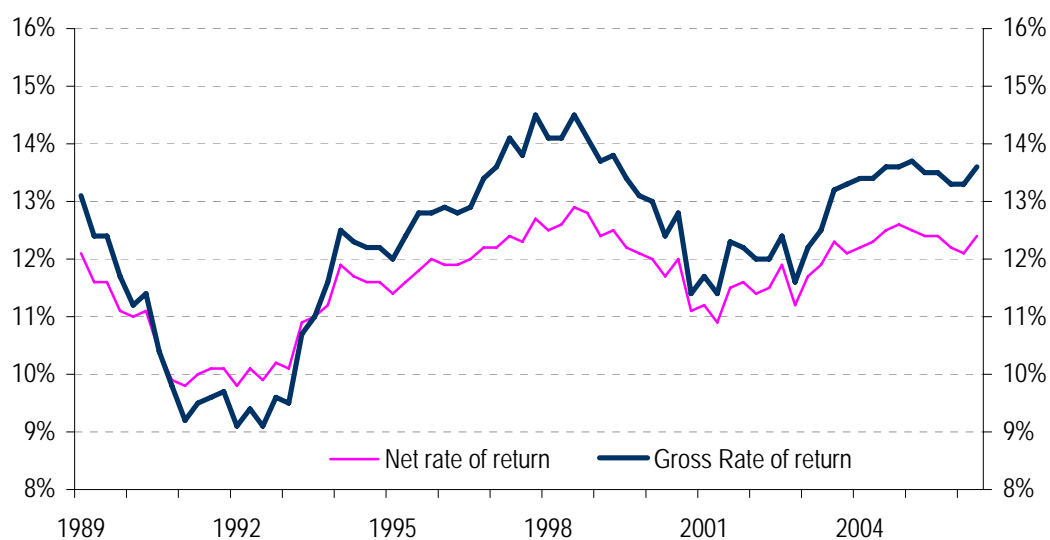
Table 1. UK economic data and forecasts

	2004	2005	2006	2007
GDP (%)	3.3	1.9	2.6	2.5
Consumer Spending (%)	3.5	3.3	2.2	2.3
Unemployment (m)	0.85	0.86	0.97	1
Average Earnings (%)	4.4	4.0	4.2	4.2

Source: HMT survey of independent forecasters; Office for National Statistics

Despite the slowdown in growth in 2005, UK company profitability (Chart 1) remains fairly healthy. There was somewhat of a dip in 2004-05, but recently profitability has picked up again, and remains above the historical average. This suggests the private sector is reasonably placed to avoid any modest economic shocks.

Chart 1: UK company profitability*



Source: Office for National Statistics

UK Private Non-Financial Corporations, excluding Continental Shelf Non-Financial Corporations

The labour market

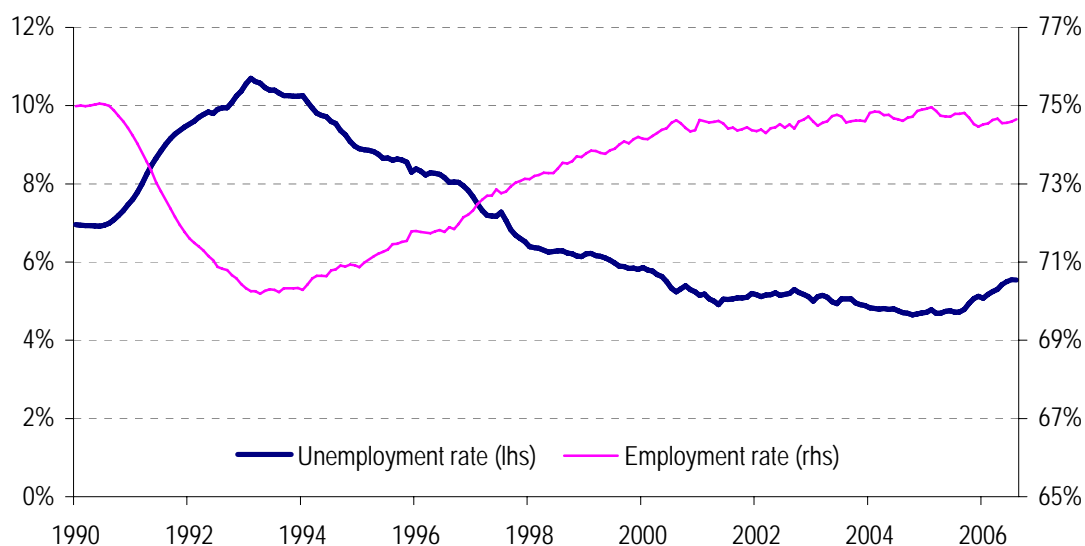
Since the introduction of the minimum wage in 1999 the UK labour market has fared well. The level of employment has increased by almost 2 million. Over the period since 1999 the employment rate has stood at record highs, with the unemployment rate at record lows.

There has, however, been a rise in UK unemployment over the last six to twelve months. The unemployment rate was 5.6 per cent in the three months to September – up from around 5.1 per cent at the turn of the year, and around 0.8pp higher than a year ago (Chart 2). It is important not to exaggerate the significance of this recent downturn in the labour market. The overall employment rate is little changed on a year ago, and the level has been rising strongly in recent months.

A major part of the explanation for the rise in unemployment has been a rising labour force participation rate (or conversely, falling economic inactivity). Rises in unemployment due to falls in inactivity are not

necessarily 'a bad thing' in the way a rise in unemployment driven by declining employment would be, as it indicates more people not in the labour market have decided to enter it, or conversely less people currently in the labour market have decided to leave it. This could reflect a number of supply-side reasons, such as the relative returns to work and job-search rising. Further, after earlier declines the level of job vacancies in the economy has been steady over the past year, suggesting the demand for labour remains reasonably robust.

Chart 2: UK labour market trends*



Source: Office for National Statistics, Labour Force Survey.

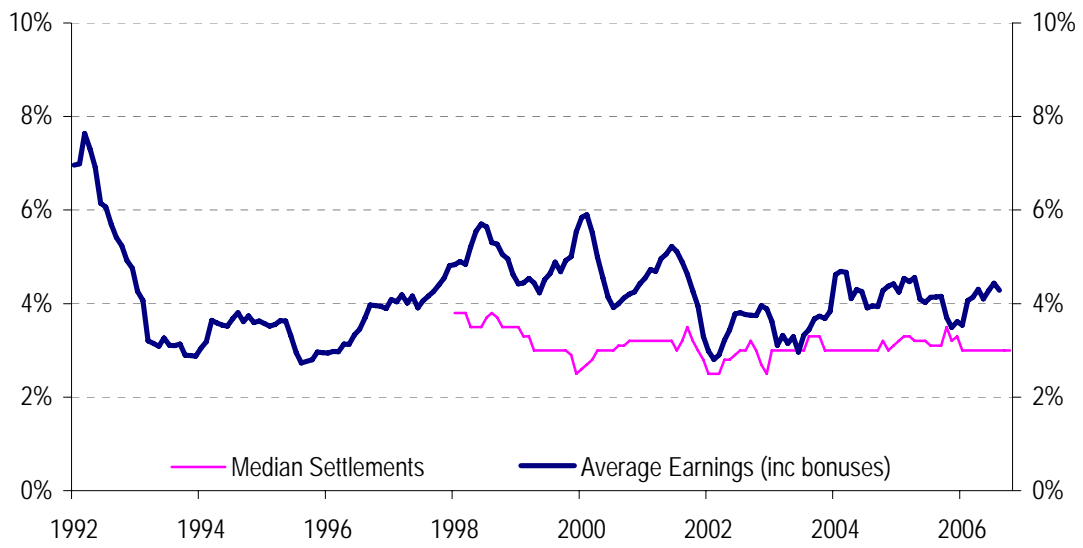
*Employment rate for working age; Unemployment rate for 16+

Some slowdown in the labour market in 2006 was not surprising given the below-trend rate of economic growth in 2005. It is quite usual for there to be a lag between cooling economic growth and any softening in the labour market. Looking ahead, the strengthening in the rate of economic growth in 2006 should in due course see an improvement in the labour market. With growth rates projected by independent forecasters to be around trend over the next two years, forecasts for unemployment imply a broadly stable unemployment level (consistent with a modest decrease in the rate) over the next few years.

Average earnings and settlements

Average earnings growth (Chart 3) also remains fairly restrained. Despite the impact of higher oil prices, median pay settlements remain around 3.0 per cent and overall earnings growth (despite some month-to-month volatility) remains below the 4½ per cent level that many external commentators consider to be the rate consistent with the Bank of England's inflation target. Independent forecasts for earnings growth over the next few years indicate expectations that a moderate pace of wages growth will continue.

Chart 3: Average earnings growth and settlements



Source: Office for National Statistics, Average earnings Index. Income Data Services, Median Settlement.

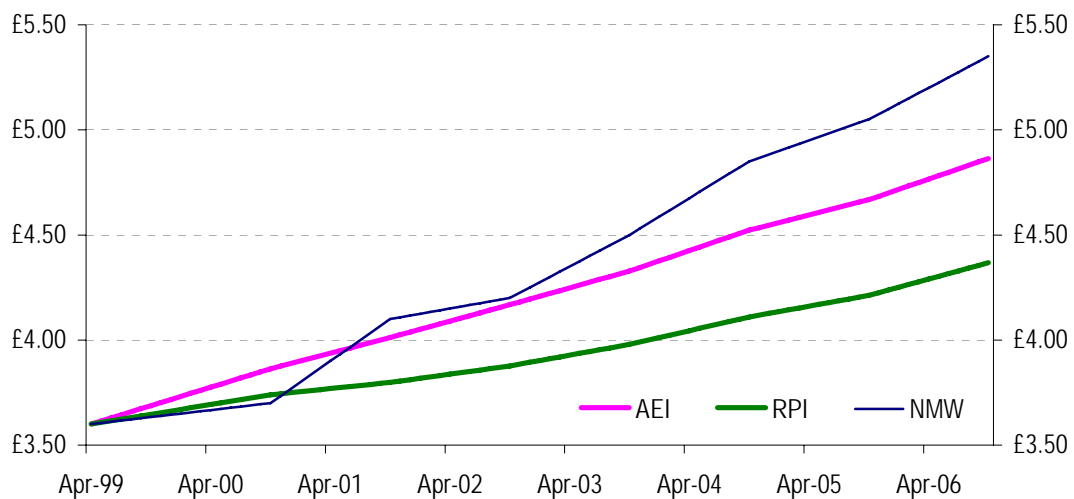
SECTION 2

Evidence on pay

The minimum wage as a percentage of average earnings, termed the 'bite', has risen since its introduction. The current level of the 'bite' looks to be around average for the OECD economies. UK academic research to date has not found any firm evidence that the adult minimum wage has reduced employment rates or raised unemployment. An increasing proportion of employees are earning hourly wage rates 'near' the minimum wage as the NMW has risen. There is evidence that the National Minimum Wage has significantly compressed the lower end of the earnings distribution, with an 'upward ripple' effect reaching up to around a fifth of the workforce.

Minimum wage increases have significantly outstripped general earnings growth and prices since introduction: between 1999 and 2006, the adult rate of the minimum wage has increased by around 49 per cent, compared to a rise of 32 per cent in median hourly earnings and a rise of 20 per cent in general consumer prices.¹ The October 2006 rise of 5.9 per cent in the adult NMW was around 2 percentage points faster than the latest data for average earnings growth.²

Chart 4: NMW increases compared to earnings growth and inflation



Source: Office for National Statistics

This chart takes the initial adult minimum wage rate in 1999 and inflates it by average earnings growth (pink line), RPI (green line) and the actual increases in the minimum wage over the period (blue line)

¹ As measured the Retail Price Index

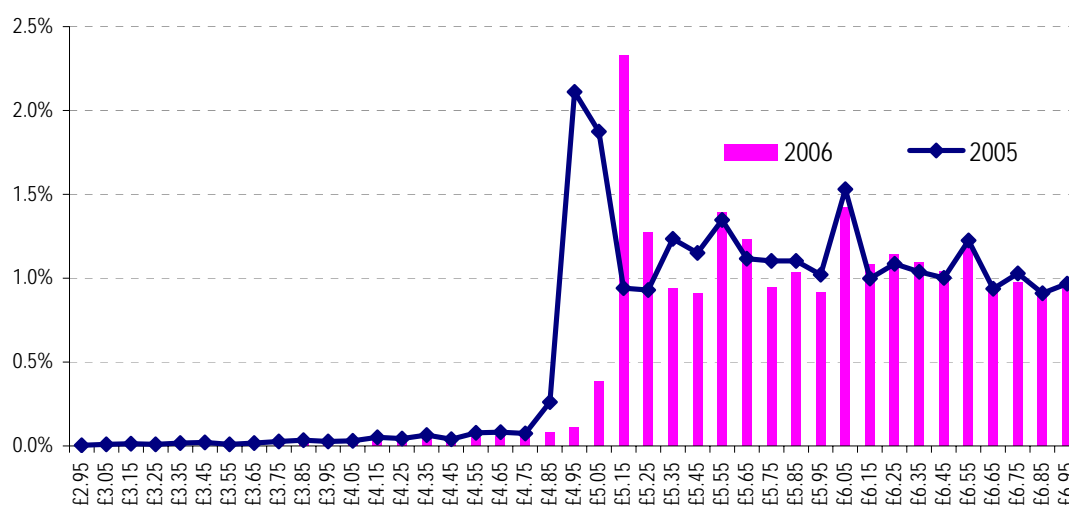
² Average earnings growth excluding bonuses was 3.6 per cent in August

The wage distribution

The National Minimum Wage will tend to truncate the bottom of the distribution of gross hourly pay. Relatively few employees would be expected to be paid below the relevant minimum wage rate. However there are exemptions for certain groups, some employees may legally be paid below the minimum wage hourly rate, and there may also be some noncompliance.

The data from the Annual Survey of Hours and Earnings (ASHE) for April 2006 shows a jump in the distribution of adult hourly pay at the point where the minimum wage cuts in. As Chart 5 illustrates, the uprating of the adult minimum wage from £4.85 to £5.05 in October 2005 resulted in this point moving from the old rate to the new higher rate. In April 2005 there was also a large spike around £5.00 as well as the £4.85 NMW rate.

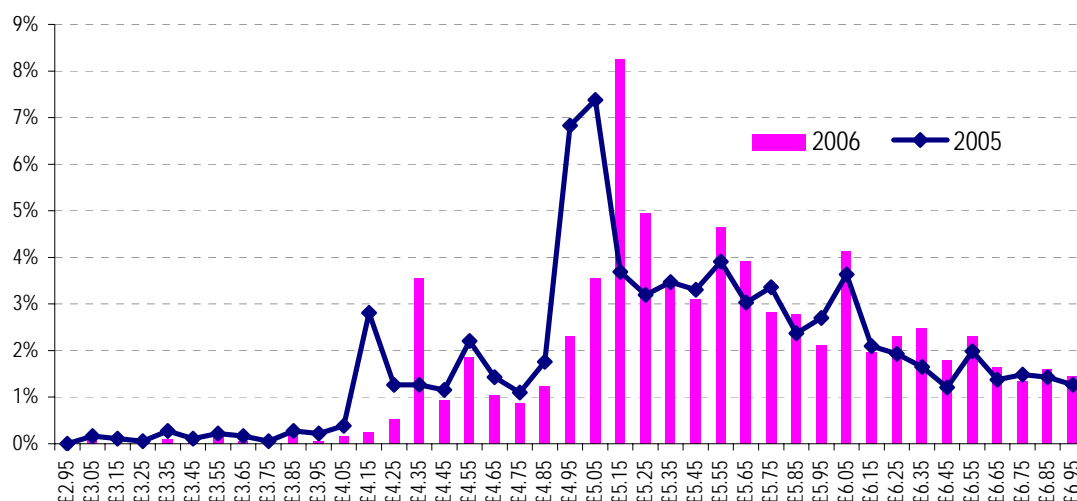
Chart 5: Adult low-pay distribution, April 2006



Source: Office for National Statistics, Annual Survey of Hours and Earnings

A similar effect can be seen for the Development Rate, paid to 18–21 year olds. Chart 6 shows a spike in the distribution of hourly pay around the Development Rate of £4.25. There is an even larger jump around the adult minimum pay rate of £5.05, reflecting the fact that most employers pay younger workers aged 18–21 the full adult NMW rate.

Chart 6: 18-21 year old low-pay distribution, April 2006



Source: Office for National Statistics, Annual Survey of Hours and Earnings

Jobs paying less than the National Minimum Wage rates

According to the latest Office for National Statistics (ONS) estimates of low pay based on data from the new ASHE survey in spring 2006, there were 336,000 jobs held by people aged 16 or over paying less than the appropriate National Minimum Wage rate³, equivalent to 1.3 per cent of all UK jobs. This was comprised of 15,000 jobs held by 16-17 year olds, 48,000 jobs held by 18-21 year olds and 274,000 jobs held by those 22 and older

By comparison, using the ONS' previous methodology of the Central Estimate of the Labour Force Survey (LFS) and the New Earnings Survey (NES), around 1.3 million people (5.6 per cent of employees) in spring 1998 were in jobs paying below the National Minimum Wage rates that came into effect in April 1999.

Table 2 provides more details of the number of jobs paid at hourly wage rates less than the prevailing National Minimum Wage rate. It should be noted that these estimates are approximate, and subject to revision. For example, the previous estimate for 2005 of 1.3 per cent of jobs was subsequently revised down to 1.2 per cent in the 2006 ASHE release.

³ The ONS' estimate of the number of jobs paying below National Minimum Wage rates cannot be used as a measure of non-compliance with the National Minimum Wage regulations. There are a number of circumstances where the National Minimum Wage does not apply and so individuals may legitimately earn less than the appropriate National Minimum Wage rate for their age. For example, these reasons include the possibility that individuals may be on certain Government training programmes or apprenticeships, in which case they are exempt for the first year, up to the age of 26. Employees may also not be receiving the National Minimum Wage in cash terms because employers can legitimately reduce rates to take into account the cost of accommodation provided – from October 2006 this amounts to a daily offset of £4.15 leading to a maximum weekly offset of £29.05.

Table 2: Number of jobs paid at less than the National Minimum Wage¹

Spring quarter	18-21		22 and over		All jobs	
	'000s	Per cent	'000s	Per cent	'000s	Per cent
1998 ²	110	7.2	1170	5.4	1280	5.6
1999 ³	40	2.4	460	2.1	490	2.1
2000 ³	30	2.2	190	0.9	230	1.0
2001 ⁴	40	2.1	210	0.9	240	1.0
2002 ⁵	50	2.7	290	1.3	340	1.4
2003 ⁶	50	2.9	200	0.9	250	1.0
2004 ⁷	44	2.3	233	1.0	276	1.1
2005 ⁸	55	3.0	233	1.0	308	1.2
2006 ⁹	48	2.5	274	1.2	336	1.3

Source: Office for National Statistics. ¹Estimates for 1998 to 2003 are based on a central estimate of the LFS and NES.

²There was no National Minimum Wage in 1998, so figures for spring 1998 are based on 1999 rates i.e. the number of jobs paid at less than £3.00 per hour (aged 18-21) or £3.60 per hour (aged 22 and over).

³Rate is £3.00 per hour (aged 18-21) or £3.60 per hour (aged 22 and over).

⁴Rate is £3.20 per hour (aged 18-21) or £3.70 per hour (aged 22 and over).

⁵Rate is £3.50 per hour (aged 18-21) or £4.10 per hour (aged 22 and over).

⁶Rate is £3.60 per hour (aged 18-21) or £4.20 per hour (aged 22 and over). These are the revised estimates based on ASHE methodology.

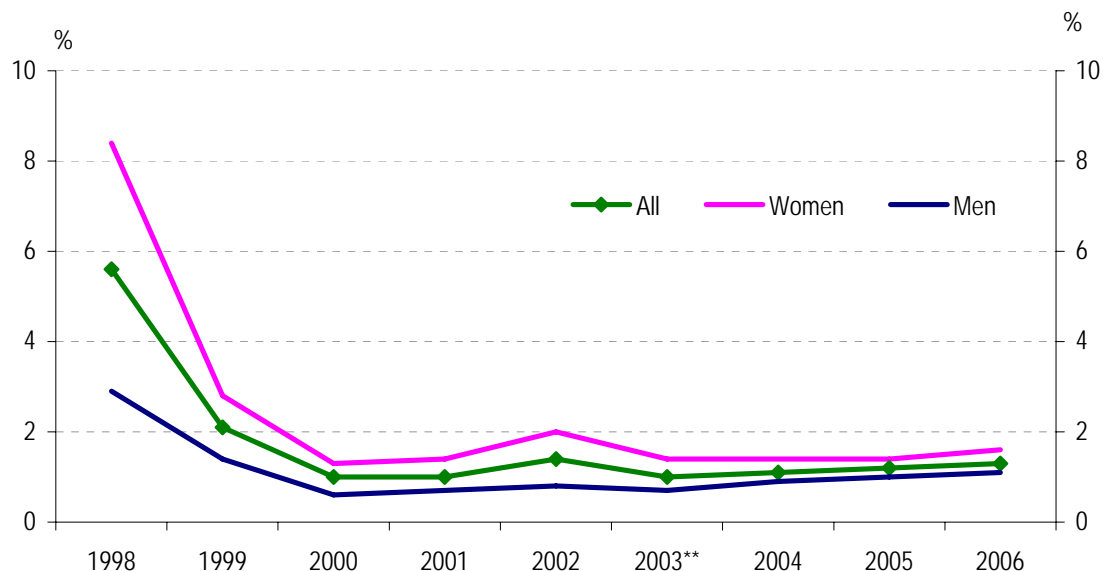
⁷Rate is £3.80 per hour (aged 18-21) or £4.50 per hour (aged 22 and over). These estimates are based on ASHE.

⁸Rate is £3.00 per hour (aged 16-17), £4.10 per hour (aged 18-21) or £4.85 per hour (aged 22 and over). These estimates are based on ASHE.

⁹Rate is £3.00 per hour (aged 16-17), £4.25 per hour (aged 18-21) or £5.05 per hour (aged 22 and over). These estimates are based on ASHE.

Evidence from the April 2006 ASHE shows that the National Minimum Wage has continued to help gender inequality in pay rates. Between 1998 and 2006, the number of jobs held by women earning below the National Minimum Wage rate fell from 940,000 (8.4 per cent of female workers) to 202,000 (1.6 per cent). In comparison, the number of men in jobs earning below the National Minimum Wage fell from 340,000 (2.9 per cent of male workers) to 135,000 (1.1 per cent).

Chart 7: Female and male jobs earnings less than the NMW



Source: Estimates for 1998 to 2003 are based upon the central estimate of the LFS and ASHE. 2004 + based on ASHE.

* 1998-2004 data covers those earnings less than the 18-21 year old rate and the adult rate. 2005 and 2006 also includes those earnings less than the 16-17 year old rate.

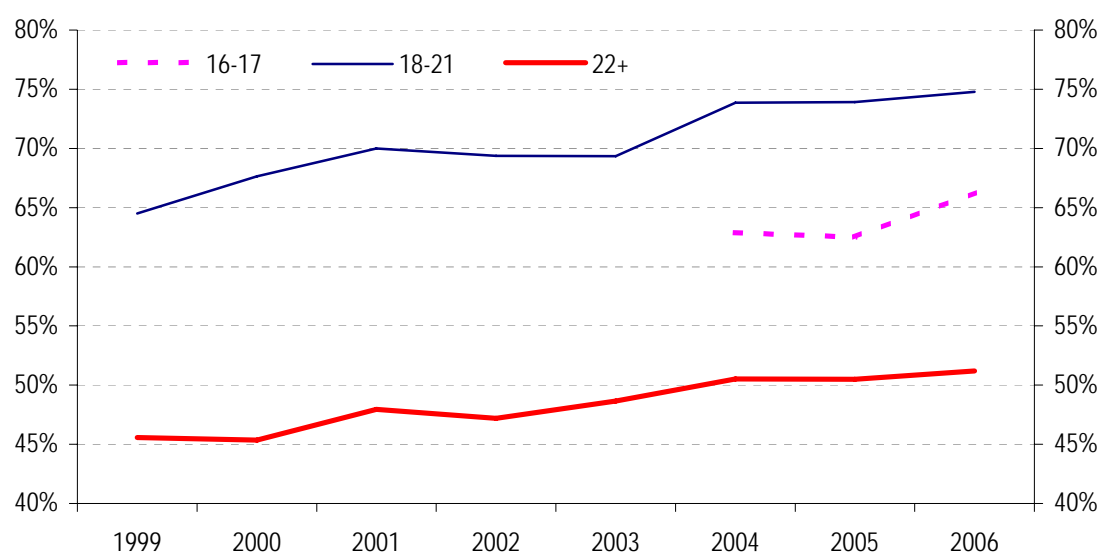
Part-timers have also benefited by more than full-timers. Between 1998 and 2006, the number of jobs held by part-time workers earning below the National Minimum Wage rate fell from 870,000 (14.1 per cent of part-

time jobs) to 174,000 (2.6 per cent). This compares with a decline in the number of jobs held by full-time workers earning below the National Minimum Wage rates from 410,000 (2.4 per cent of full-time jobs) to 162,000 (0.9 per cent).

The bite of the minimum wage

The minimum wage as a proportion of average earnings is often termed the 'bite' and is a measure of how high up the earnings distribution the NMW cuts in. Usually median earnings are the preferred measure of average earnings. Since its introduction the 'bite' of the adult NMW has increased from around 46 per cent of median hourly earnings to around 51 per cent in October 2006 (Chart 8). The minimum wage 'bite' for both 16-17 year olds and 18-21 year olds is higher, and has been rising at a faster pace.

Chart 8: The 'bite' of the NMW over time*



Source: Office for National Statistics, Annual Survey of Hours and Earnings

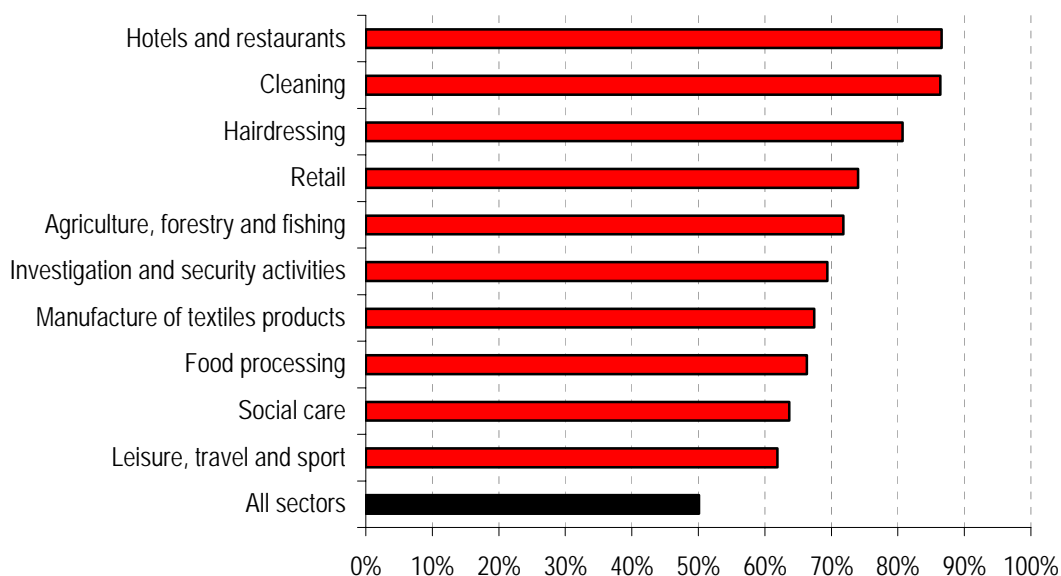
* As a percentage of median hourly earnings

Changes in wording and definitions to the ASHE survey means that there is a discontinuity in data between time periods after (and including) 2004 and earlier periods

The Low Pay Commission (LPC) defines a number of sectors as being 'low-paid'⁴, where there are large numbers of people earning near the NMW working in them. Because these sectors have low average pay, the 'bite' for these sectors will be higher. Analysis using the latest data from April 2006 shows that the 'bite' in some of these sectors exceeds 80 per cent, with some of the largest low-paid sectors (Chart 9) including retail trade and hotels & restaurants having some of the highest 'bites'.

⁴ The definition of these sectors has been reviewed and updated for 2006.

Chart 9: The 'bite' of the NMW in low-paid sectors*



Source: DTI calculations using ASHE data from Office for National Statistics. *'Bite' defined as NMW as percentage of median earnings

The very simplest economic theory might suggest that a minimum wage that is set above the 'market clearing rate' in an economy can lead to lower labour demand than otherwise. This might be reflected in a lower employment rate and a higher unemployment rate, or might instead manifest itself in people working fewer hours. However, labour economists identify a number of instances where the simplest theory might not hold. If the labour market is not highly competitive it is possible that firms will hold wages 'down' in order to maximize their profits. In these circumstances a minimum wage can actually lead to higher employment and lower unemployment.

As Chart 10 indicates, there is no obvious or statistically significant relationship in the latest available data⁵ between the sectors that have experienced the largest increases in the bite and those that have seen the largest falls in their share of total employment. The available academic research to date on the effects of the UK's minimum wage has also found no strong evidence of negative employment effects. This is consistent with much of the available international evidence. There is however some evidence that the minimum wage may have led to a reduction in working hours in the UK (see Annex E for a summary of recent research).

⁵ Up to April 2006.

Chart 10. Change in bite against change in employment share

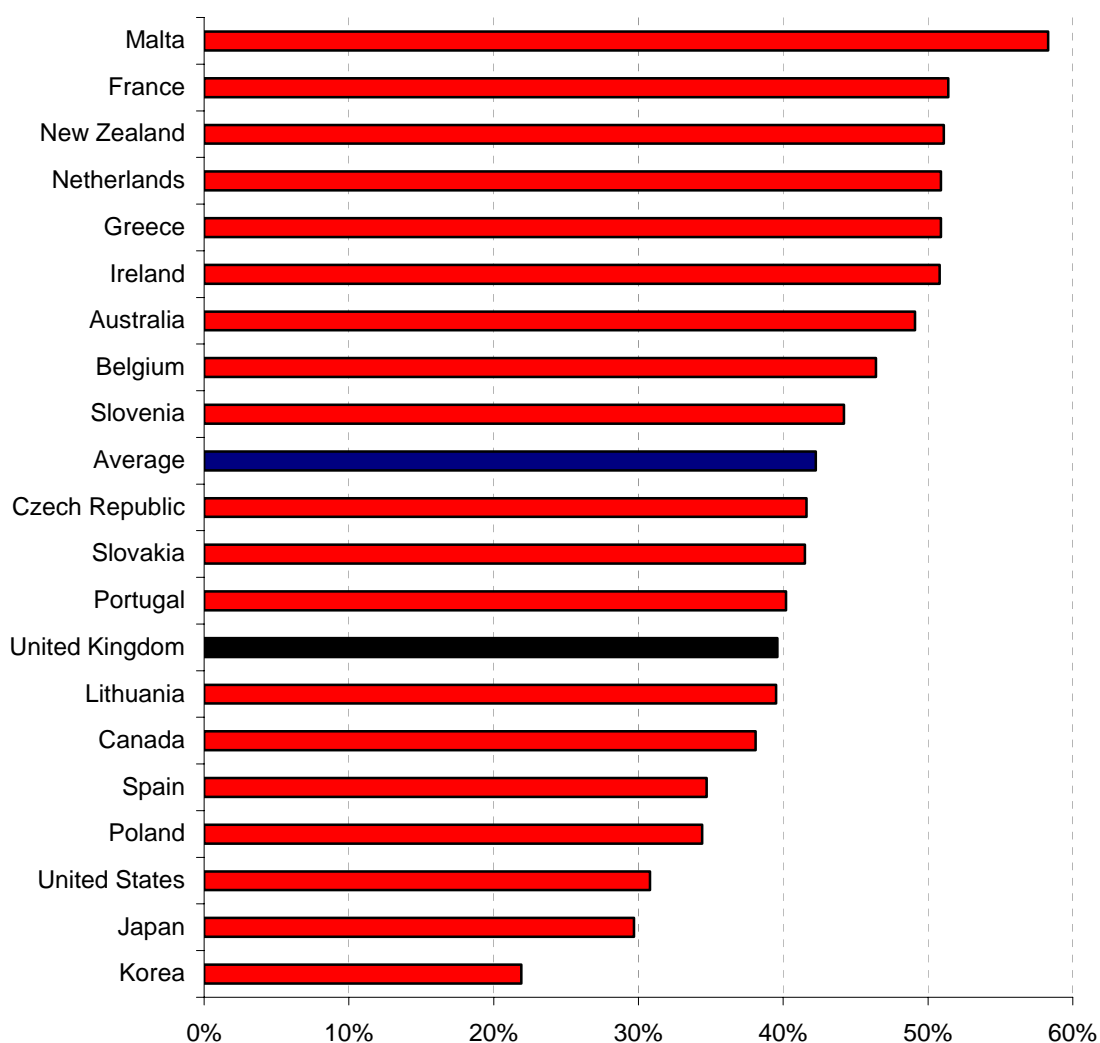


Source: Annual Survey of Hours and Earnings, 1998 and 2006, ONS

International comparisons of the minimum wage 'bite'

It is possible to look at international evidence on the 'bite', although differences in data methodologies make this imprecise. Consistent data on median hourly earnings is not possible to obtain for many countries, so the international comparisons shown are based on mean hourly earnings. On the available evidence, the UK bite is around, or slightly below, average for the OECD economies, with the US having a significantly lower figure and several of the European economies having a higher 'bite' than the UK.

Chart 11: International comparisons of the minimum wage as a proportion of mean earnings

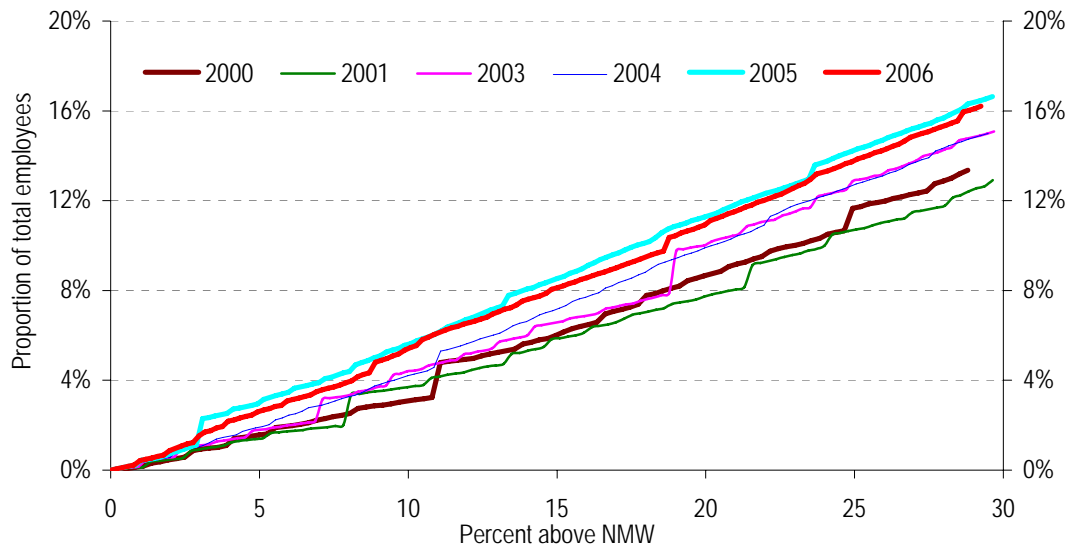


Source: Various (see Annex C)

Compression of the earnings distribution

Only around 3 per cent of adult workers in all sectors appear to be paid either at the minimum wage or below it. But as the level of the minimum wage rises in relation to median earnings, it is likely that an increasingly large number of people will be paid at a given proportion above the NMW. The available data suggests this is indeed the case. Chart 12 shows that in Spring 2000 around 7.0 per cent of employees worked between the NMW and 20 per cent above it, but by Spring 2006 that had increased to 11 per cent. In the low-paying sectors these proportions are higher, with around 32 per cent of workers in these low-paid sectors being paid within 20 per cent of the NMW.

Chart 12: Proportion of Employees earning within a certain percent above the NMW



Source: DTI calculations using ASHE data from Office for National Statistics

Changes in wording and definitions to the ASHE survey means that there is a discontinuity in data between time periods after (and including) 2004 and earlier periods

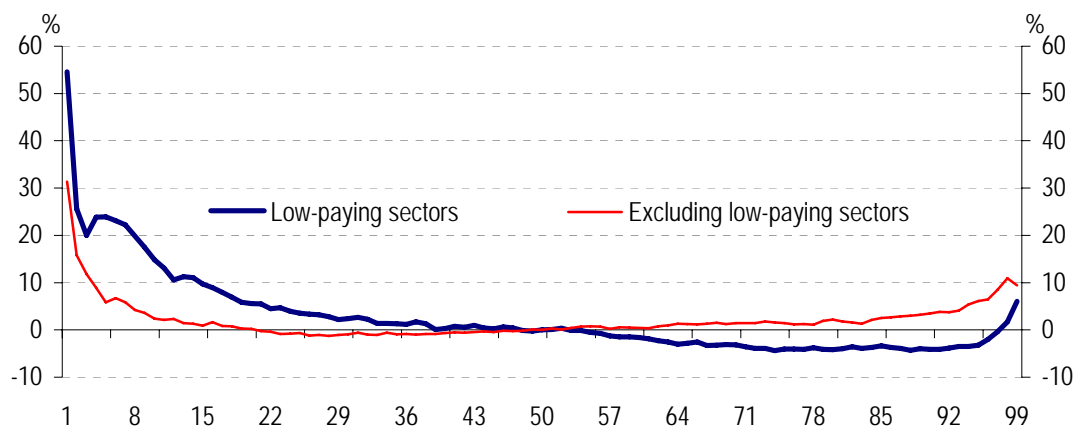
There is evidence, as shown in Chart 13, that the NMW has significantly compressed the lower end of the earnings distribution.⁶ The chart shows the total cumulative increase in hourly pay across the earnings distribution, from the lowest to highest income earners, between 1998 and 2006 for both the low-paying and non low-paying sectors. We have excluded the median increase over that period in order to highlight movements around the median.

Since 1998, employees at the lower end of the pay scale have received larger percentage increases in their pay than those at the top end, particularly in the low-paying sectors. The above-average increases in earnings received by the low paid have not just benefited the bottom five to ten per cent. There has been an 'upward ripple' effect reaching to at least 20 per cent of the total workforce.

In the most recent 2006 ASHE data, the earnings growth of the bottom 10 and 20 percentiles registered a broadly similar increase to the median rise – maintaining wage relativities at the bottom half of the wage distribution, rather than seeing them compressed further.

⁶ For more on this issue, see Tim Butcher "The hourly earnings distribution before and after the National Minimum Wage", *Labour Market Trends*, ONS, October 2005.

Chart 13: Cumulative increase in earnings by percentile, 1999-2006*



Source: Office for National Statistics, Annual Survey of Hours and Earnings. * Excluding the increase in median earnings over this period
Changes in wording and definitions to the ASHE survey means that there is a discontinuity in data between time periods after (and including) 2004 and earlier periods

Some employers have argued that increases in the minimum wage have led to compression in wage differentials, damaging incentives for employees' progression within low-paying organizations. However, recent work by researchers at the ONS tends to suggest that wages for jobs near the minimum level have moved closely in line with the NMW, maintaining differentials.⁷ This implies the compression in the distribution of hourly earnings evident in Chart 13 may come in part from firms' overall management of their pay structures via, for example, the speed of progression within organisations rather than just reflecting compression in pay scales.

⁷ "Do company wage policies persist in the fact of minimum wages?", Labour Market Trends (March 2006).

SECTION 3

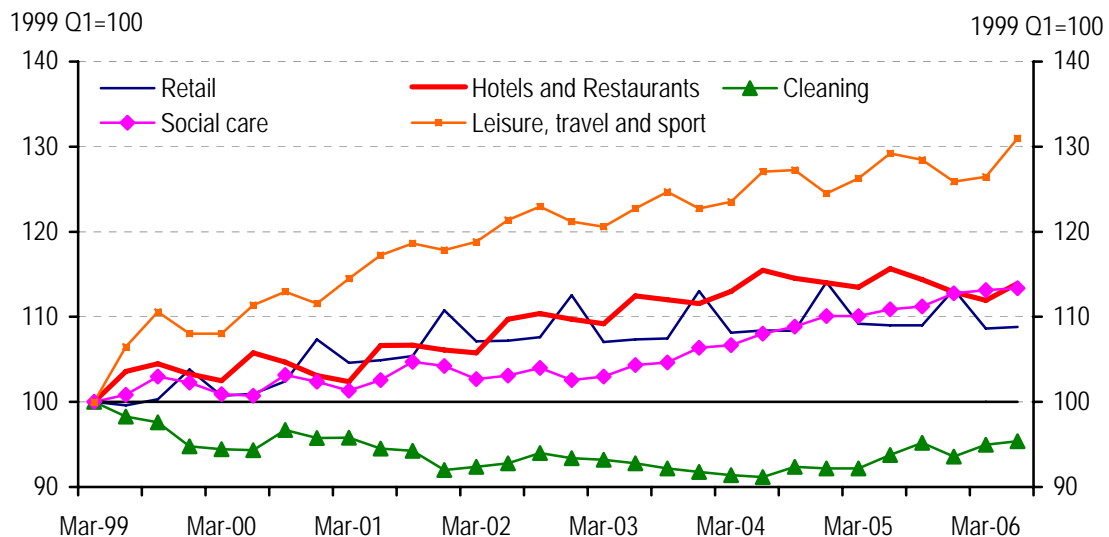
Developments in low-paying industries

Since the introduction of the minimum wage in 1999 the number of jobs in the low-paying sectors has increased by 512,000. Jobs in the low-paid sectors have been falling over the previous year, although the most recent data indicates that they may not be continuing to fall further. A significant part of the recent fall in jobs in low-paying industries has been due to falling jobs in retail and hotels & restaurants. To a large extent these falls are likely to reflect the slowdown in consumer spending in 2005, which contributed to the slowdown in overall economic growth. As consumer spending picks up, it would not be surprising to see some recovery in jobs in the low-paid sectors.

Employment in low-paying sectors

Since the introduction of the minimum wage in 1999 the number of jobs in the low-paying sectors has increased by 512,000 (6.5 per cent), compared to an overall jobs increase of 1.8 million (7.3 per cent). The largest job increases have been in the retail sector (up 272,000) and in hotels & restaurants (up 217,000).

Chart 14: Jobs in major low-paying sectors since 1999

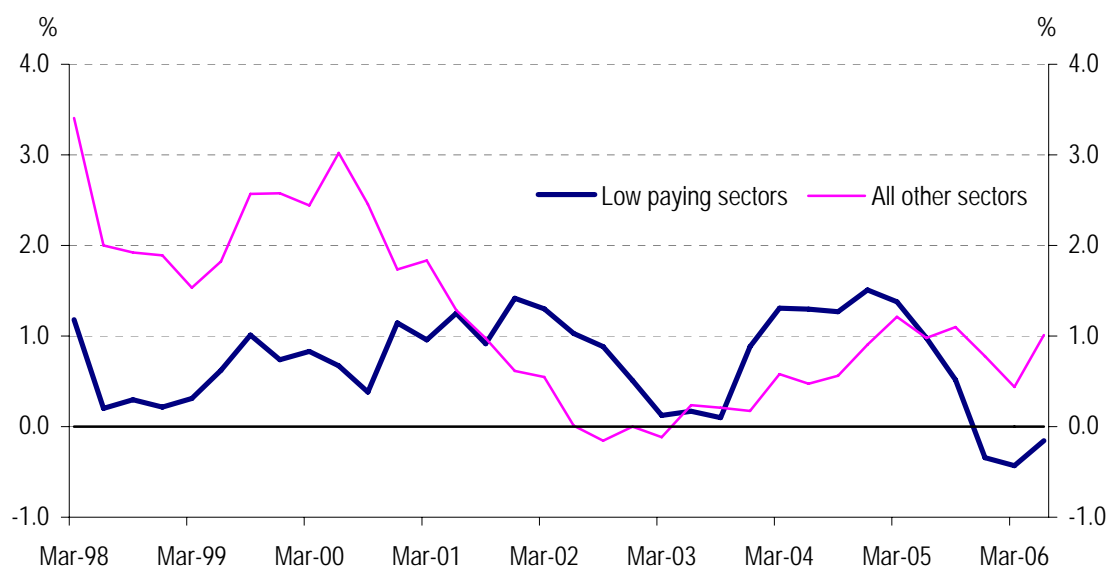


Source: Office for National Statistics, Workforce jobs

Aggregate job growth in the low-paid sectors declined markedly in 2005 (Chart 15), and was significantly weaker than job growth in other sectors. Jobs in the low-paying sectors continue to be slightly lower than a year earlier in the most recent data for 2006 Q2, although there is some evidence that jobs in the low-paid sectors may not be continuing to fall

further. However, the October 2006 increases in the minimum wage, which were larger than the 2005 increases, are too recent to be reflected in the current data. The Government will therefore continue to monitor developments closely.

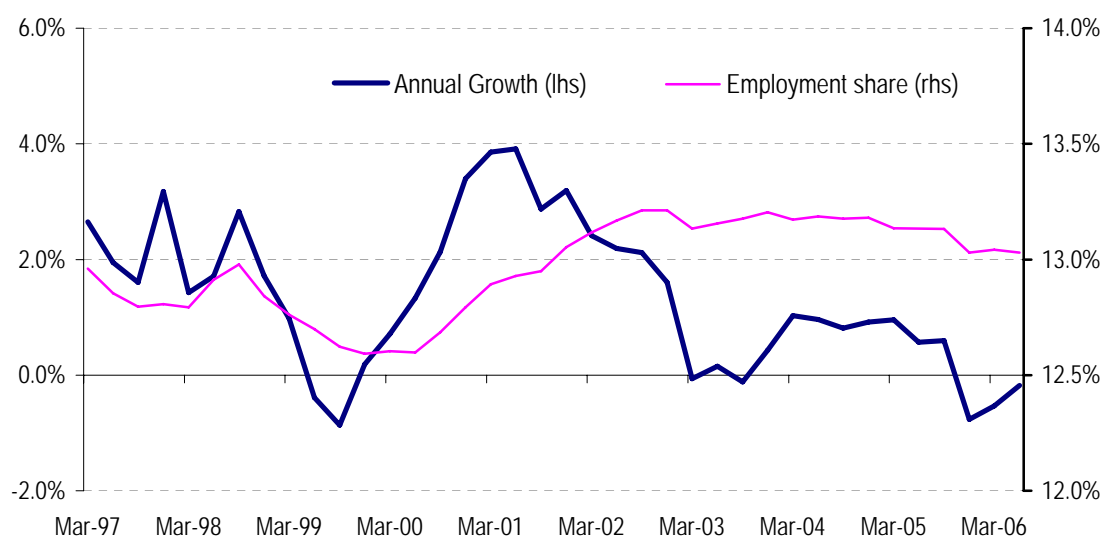
Chart 15: Annual jobs growth



Source: Office for National Statistics, Workforce jobs

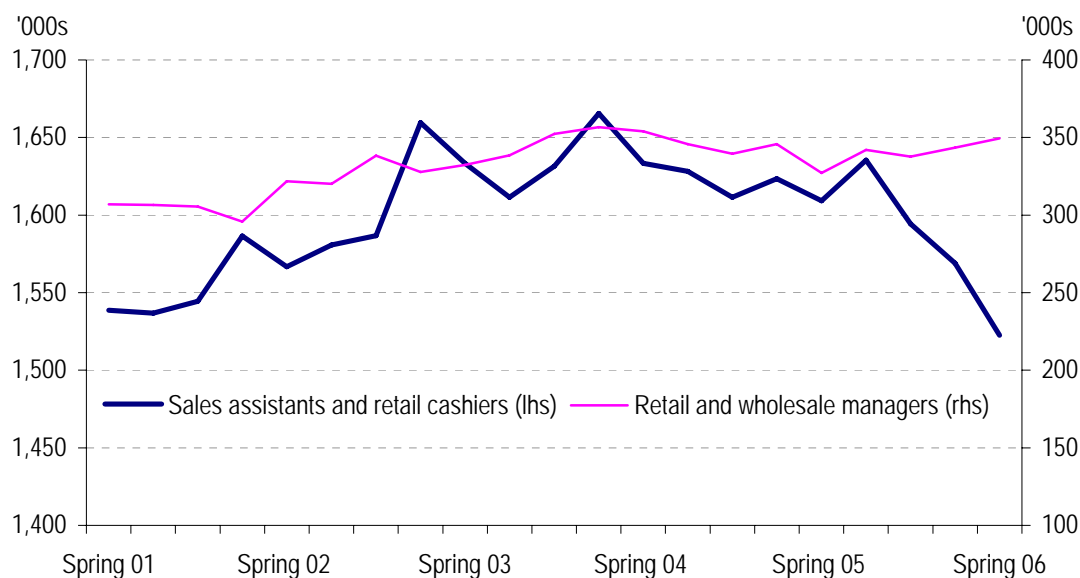
A significant part of the recent fall in jobs in the low-paid sectors reflected falling jobs in retail (Chart 16). Looking at the occupational split within retail indicates the falls have been in cashiers and sales assistants rather than managerial positions (Chart 17).

Chart 16: Annual jobs growth and share in retailing



Source: Office for National Statistics, Workforce jobs

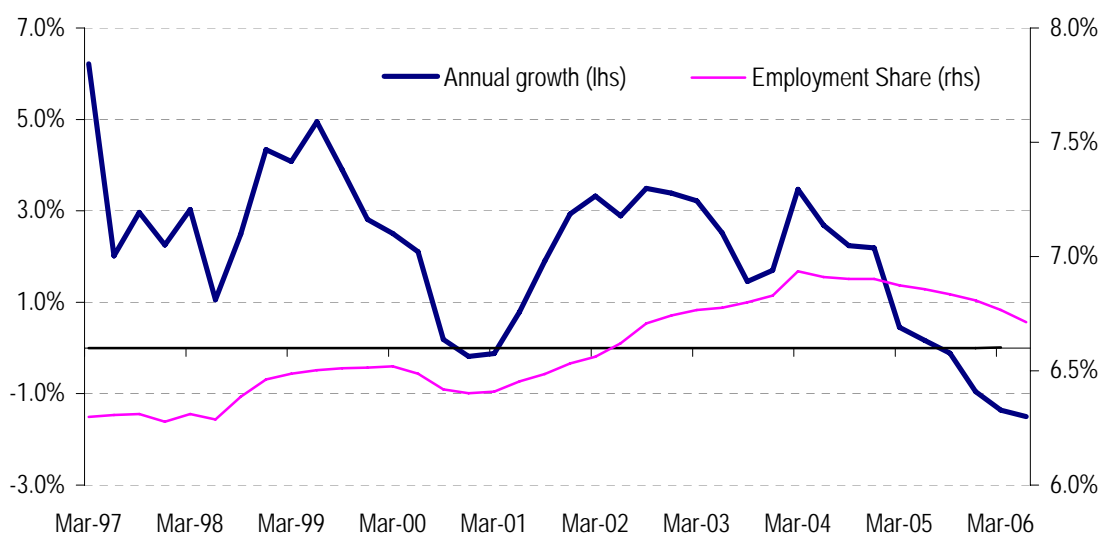
Chart 17: Employment in retailing occupations



Source: Office for National Statistics, Labour Force Survey

Retail is not the only low-paid sector where jobs have been falling. Jobs in hotels & restaurants fell by 27,000 in the year to 2006 Q2 (Chart 18).

Chart 18: Annual jobs growth and share in hotels & restaurants



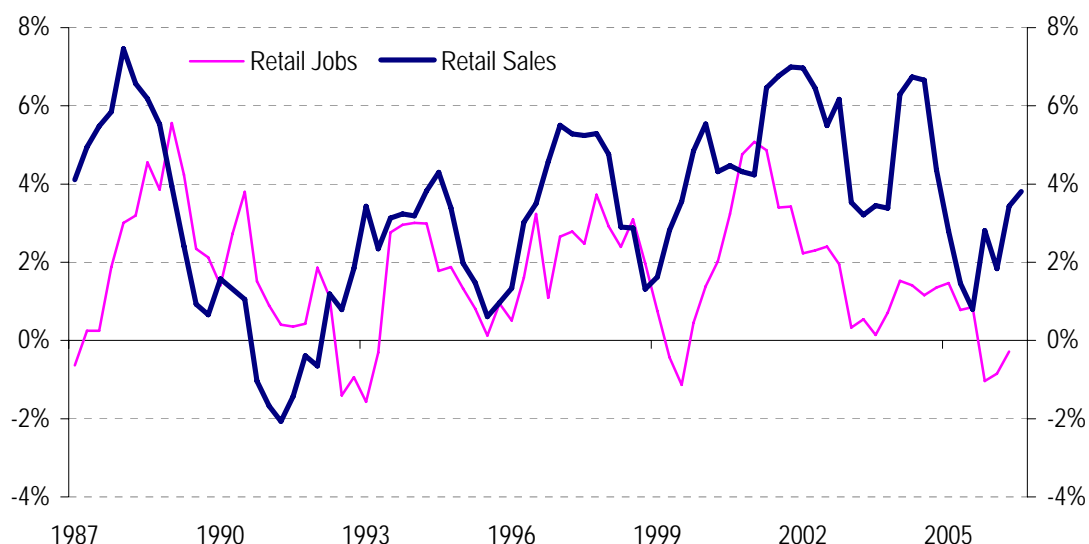
Source: Workforce jobs, Office for National Statistics

It is possible that a large part of the fall in jobs in the retail and hotel & restaurant sectors reflects the slowdown in consumer spending that occurred in 2005. Indeed, some of the other low-paying sectors such as leisure and hairdressing are also likely to have been affected by the overall consumption growth deceleration. If the job losses largely reflect this, then as the economy picks up in 2006 and 2007 we may expect to see at least a partial bounce back in job growth in the low-paying sectors.

The relationship between retail spending and retail jobs in the past (Chart 19) does indeed suggest that a large part of the recent downturn in retail jobs is likely to be linked to the fall-off in retail spending. In the past, weak retail spending has usually resulted in fairly large falls in the growth of jobs in retailing. But it is also the case that prior to the slowdown, the strong growth in retail spending since 2001 was not matched by a similar strength in retail jobs growth, as one might have expected from past relationships.

It is possible this could be the result of the longer-term effect of the NMW, with firms potentially substituting machinery for workers. But there are other explanations, including the general trend to try and match US levels of productivity in the retail sector. Another partial explanation may be the rise in internet retailing, which could have changed the relationship between consumer expenditure and retail employment.

Chart 19: Annual growth in retail sales and retail jobs



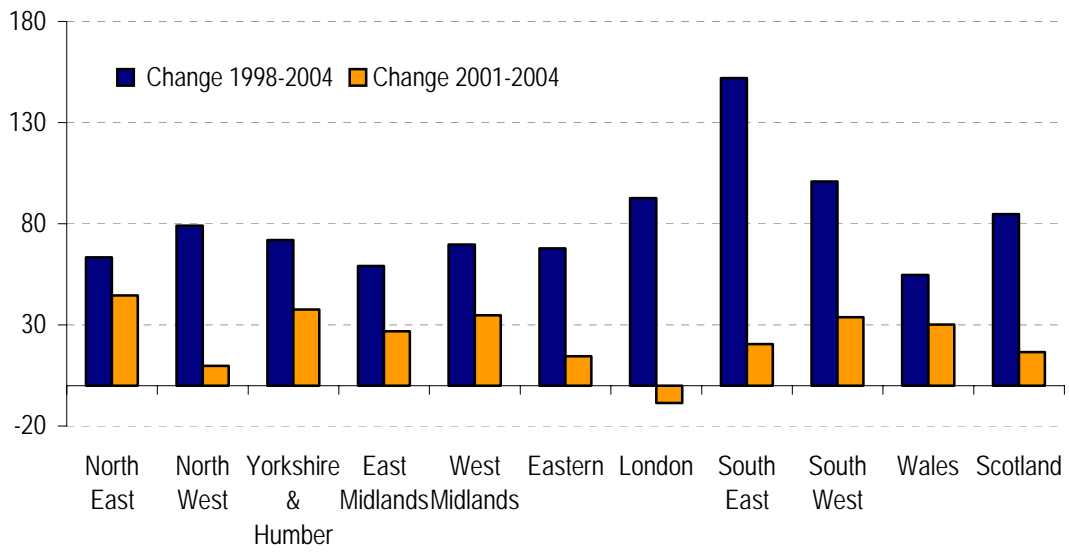
Source: Office for National Statistics

Regional employment in low-paying sectors

Regional data on jobs in the low-paying sectors is only available up to 2004, which limits the ability to analyse the impact of more recent movements in the minimum wage.

In general, however, employment in the low-paying sectors at the regional level has followed developments at the national level. Taking the low-paying sectors as a whole, jobs have increased in all regions of Great Britain since 1998. The largest rise has been in the South East, with jobs increasing by 152,000, while the smallest rise was in the North East, with jobs increasing by 63,000.

Chart 20: Regional jobs in low-paying sectors ('000s)



Source: Office for National Statistics

SECTION 4

Developments in the labour market for younger workers

The effects of the NMW on younger workers needs to be considered carefully to avoid damaging the incentives between education and work and to ensure the employment prospects of younger workers are not adversely affected. The employment rate of 18-21 year olds has fallen since 2000, although the unemployment rate remains lower than at the time of the introduction of the minimum wage. The labour market position of 21 year olds remains more similar to that of younger workers than to those aged 22 and above.

The introduction of a national minimum wage for 16 and 17 year olds does not appear to have had an adverse impact on participation in education or training. Whilst employment rates of 16 and 17 year olds have fallen and inactivity rates have risen both before and after the introduction of the 16-17 minimum wage, this has been associated with a rise in the proportion of young people entering education.

The youth rates

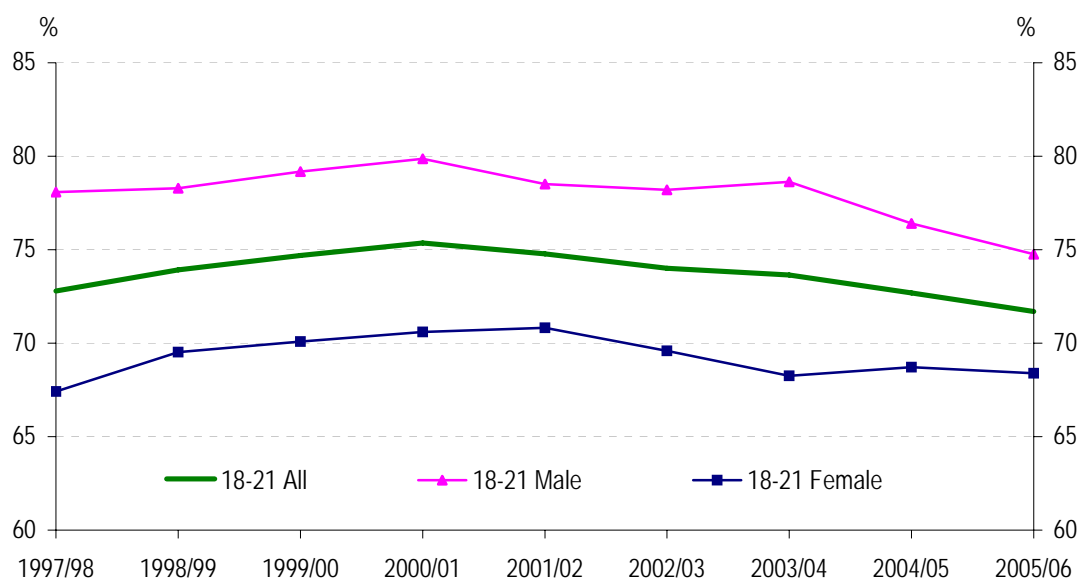
Younger workers warrant particular attention in setting the relevant minimum wage rates. This in part reflects the role the NMW can potentially play in changing the balance of incentives between education and employment. It also reflects the fact that the 'bite' of the NMW is significantly higher for younger age groups than for older workers. Out-of-work benefit levels and other forms of financial support available to young people mean that the work incentive structure for young people is different from that for adults. Consequently, it is difficult to meaningfully compare the bite of the youth and adult NMW rates, but caution is required to ensure that any increases in the NMW that might have negative employment consequences for younger workers are avoided. Younger workers are also typically less skilled and productive than older workers. For these reasons a lower National Minimum Wage development rate is in place that seeks to protect young workers while not jeopardizing their employment prospects. The Government therefore monitors this group of workers carefully.

18-21 year olds

The employment rate amongst 18 to 21 year olds is higher than before the introduction of the minimum wage. But Chart 21 shows that the employment rate for 18-21 year olds has been declining since around 2000/01. The decline has been primarily driven by males. Part of this decline might reflect compositional change in the labour market: as

participation in higher and further education rises, so those not participating might increasingly be the less 'employable'. However, the numbers of 18 to 21 year olds not in full-time education or graduates has been reasonably stable, at around 1.66m in Spring 2000 and around 1.72m in March 2006.

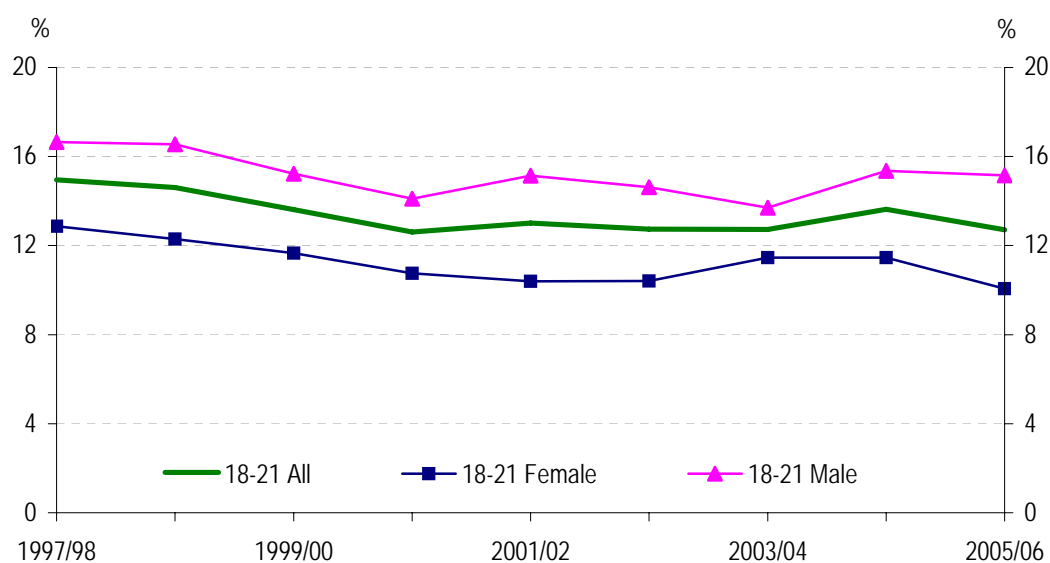
Chart 21: Employment rate of 18-21 year olds, excluding full-time students and graduates



Source: Office for National Statistics, Labour Force Survey. 4-quarter averages.

The unemployment rate of 18 to 21 year olds has not risen to the same extent that their employment rates have fallen (Chart 22). Instead there also appears to have been a rise in inactivity amongst this group.

Chart 22: Unemployment rate of 18-21 year olds excluding full-time students and graduates

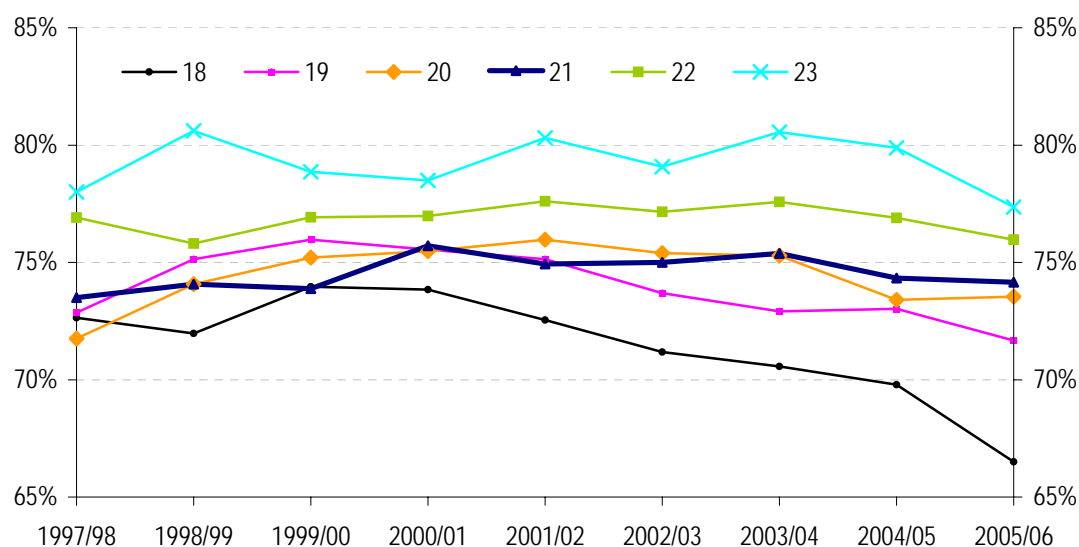


Source: Office for National Statistics, Labour Force Survey. 4-quarter averages.

Currently 21 year olds are covered by the youth development rate, as the Government has believed the labour market performance of 21 year olds

resembles more closely that of 18 to 20 year olds than older workers. Looking at the employment rate (excluding students and graduates) by individual age, Chart 23, indicates that the employment rate of 21 year olds continues to be closer to that of 20 year olds than to those 22 years old and above.

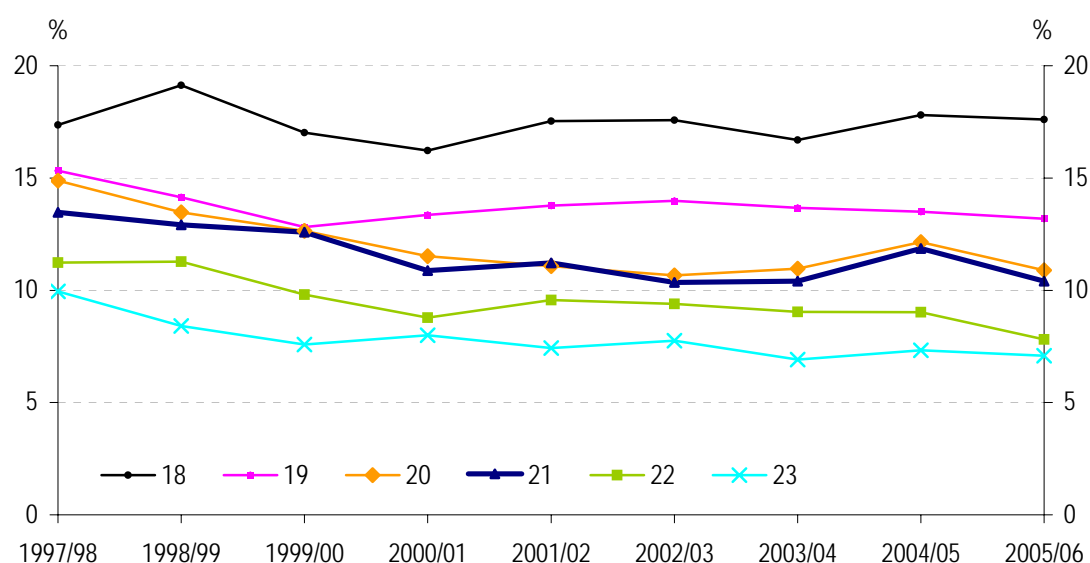
Chart 23: Employment rate of 16-24 year olds excluding full-time students and graduates



Source: Office for National Statistics, Labour Force Survey. 4-quarter averages.

The unemployment rate of 21 year olds also remains above that of 22 year olds and above, Chart 24.

Chart 24: Unemployment rate of 16-24 year olds excluding full-time students and graduates

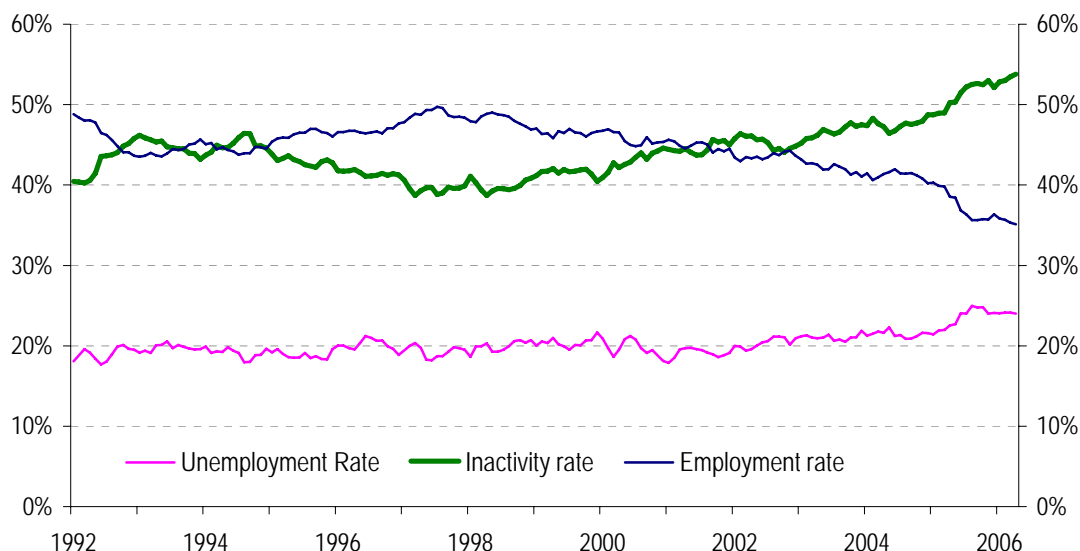


Source: Office for National Statistics, Labour Force Survey. 4-quarter averages.

16-17 year olds

The minimum wage rate for 16-17 year olds was introduced in October 2004. It was initially set at the lower rate of £3.00 and was increased to £3.30 from October 2006. The Government's aim is to afford very young workers some protection from poverty pay, while maintaining the incentives for 16-17 year olds to remain in education or job-related training and build-up their knowledge and future earnings potential.

Chart 25: Employment, unemployment and inactivity rates of 16-17 year olds



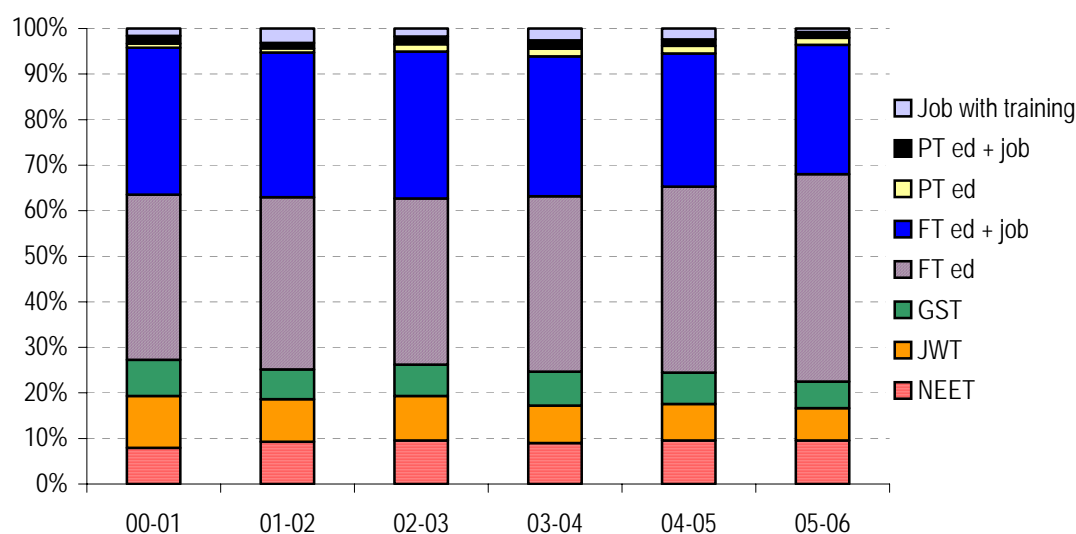
Source: Office for National Statistics, Labour Force Survey

Chart 25 indicates that the employment rate of 16 to 17 year olds has been decreasing for some time. The most significant counterpart to the falling employment rate amongst this age group has been a rise in the inactivity rate. This contrasts to the overall inactivity rate for those of working age, where the inactivity rate has been flat to falling.

However, importantly, Chart 26 indicates that the increase in inactivity amongst the 16 to 17 year old age group reflects rising proportions entering full-time and part-time education rather than being not in education or employment (NEET).⁸ The proportion of 16-17 year olds in full-time education but not working has increased from around 36% in 2000/2001 to 46% in 2005/06. There has been a small decline in the proportion of 16 to 17 year olds in full-time education combined with a job, but overall the proportion of 16-17 year olds in full-time education has increased.

⁸ The data in Chart 26 and the figures quoted in this paragraph refer to DFES analysis of the LFS micro-data. They refer to England and Wales.

Chart 26: Economic status of young people aged 16-17



Source: DFES analysis of LFS microdata. These data are for England and Wales.

Where: PT ed + job=part-time education and employed; PT ed = part-time education; FT ed + job= full-time education and employed; FT ed=full-time education; GST = Government supported training; JWT = Job without training; NEET = not in employment, education or training.
Source: Labour Force Survey, ONS

Chart 26 indicates that the proportion of 16 to 17 year olds in the NEET category has hovered around 10%, while the proportion in jobs with no training (JWT) has declined somewhat. Therefore, overall the proportion of 16 to 17 year olds not in some form of education or training (NET) remained broadly flat at 19% in 2000/01 and 2002/03 but has dipped to around 17% since 2003/04.

The introduction of a national minimum wage of £3.00 for 16 and 17 year olds in October 2004 does not appear to have had an adverse impact on participation in education or training. Whilst employment rates of 16 and 17 year olds have fallen and inactivity rates have risen both before and after the introduction of the minimum wage, this has been associated with a rise in the proportion of young people entering education (rather than becoming NEET). It is not possible of course to isolate the impact of the minimum wage from other policy changes which may have been simultaneously implemented. Furthermore, it is possible that any effects may take time to feed through to the labour market as the policy beds in, particularly for the recent October 2006 rise, which the currently available labour market data does not cover.

SECTION 5

Other issues

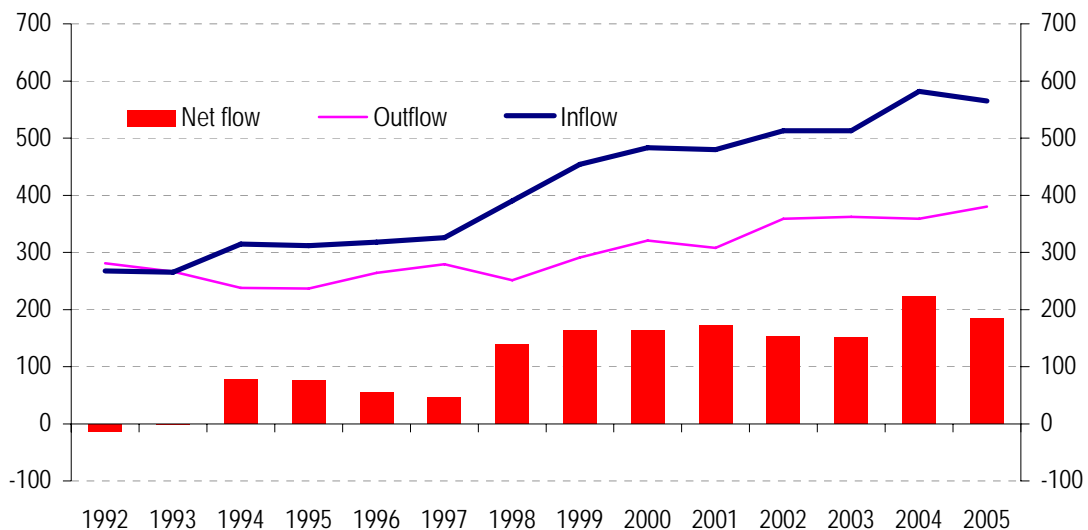
There has been a historically large net inward migration into the United Kingdom over the last few years, in part driven by migrants from the accession countries. Available data suggests that A8 migrants tend to be employed in lower paid jobs and occupations. But there is currently no clear evidence that migrants have depressed earnings growth or led to a rise in unemployment.

The Government has proposed increasing the current statutory minimum holiday entitlement from four weeks to a of maximum 5.6 weeks (28 days), to implement its commitment to make paid time off for bank holidays additional to the current four-week holiday entitlement. There is likely to be some overlap between those benefiting from the minimum wage and those who will benefit from the extension of leave.

Migration

Migration has an important role to play in an economy in increasing labour market flexibility. Increased migration can also boost the long-run potential growth rate of an economy, help ease skills shortages and increase the proportion of those of working age compared to the non-working. Inward migration into the United Kingdom has risen strongly in recent years. Outward migration has also been rising, but the estimated net inflows into the UK, averaging around 200,000 per year in 2004 and 2005 (Chart 27) are high compared to previous levels.

Chart 27: Inflows and outflows of migrants into the UK ('000s)

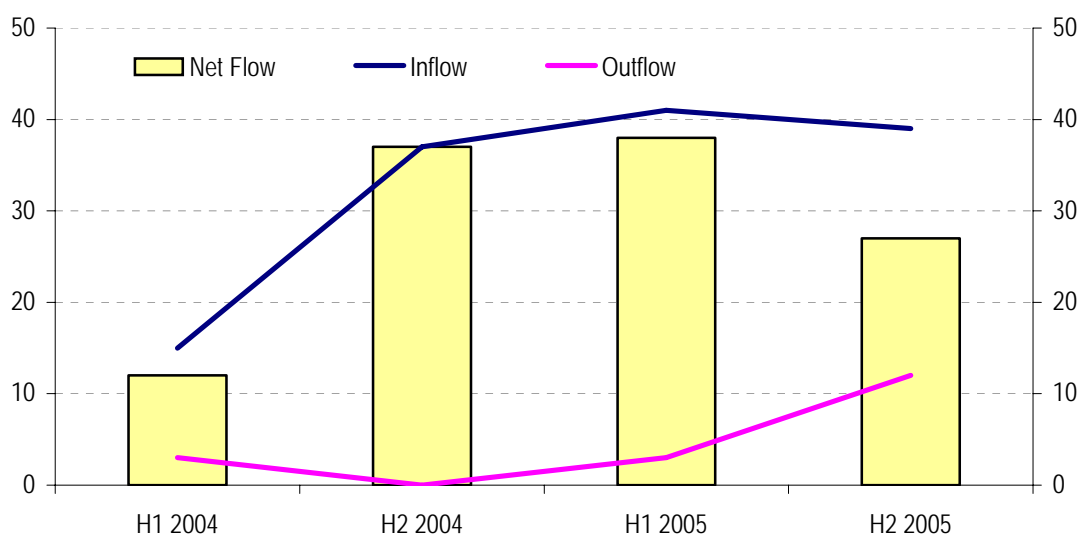


Source: International Passenger Survey, Office for National Statistics

One of the main drivers of the increase in the inflow of migrants in recent years has been the accession of the eight Central and Eastern

European members (the A8 group) into the European Union. Chart 28 shows the large net inward flow of migrants from these countries, particularly over the second half of 2004 and the first half of 2005. In the second half of 2005 the inflow of A8 migrants remained high, but there was some indication that the outflow of migrants had started to pick-up - though more data will be needed to confirm this development.

Chart 28: Inflows and outflows of A8 migrants into the UK ('000s)



Source: International Passenger Survey, Office for National Statistics

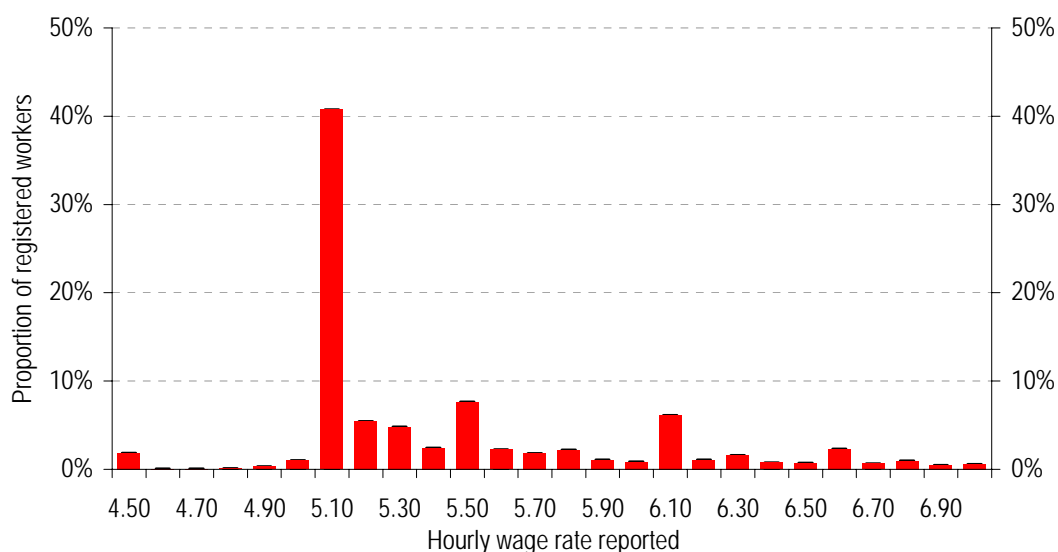
The Workers Registration Scheme (WRS) requires employees (but not the self-employed) from the A8 countries to register before taking work. In 2005 194,953 registered on the WRS. Although migration data for the UK is not comprehensive, it is likely that A8 workers have formed a high proportion of the total migrant inflow since accession.⁹

The WRS asks A8 migrants about their hourly rate of pay. The data here must be viewed with some caution, as new A8 employees may not know clearly their pay at the time of registration and in due course their hourly pay may change during the course of their employment, which would not be picked up by the data. Nonetheless, the data provides some indication on the nature of the pay distribution of A8 migrants.

Chart 29 shows the distribution of hourly pay for registering migrants aged 22 or older over the period March to May 2006. It indicates that a high proportion - around 40 per cent - of registrations reported pay at or close to the minimum wage rate of the time (£5.05). This broadly concurs with the occupational split of the WRS data, which indicates a high proportion of A8 migrants as working in 'process, plant and machine operative' and 'elementary' occupations.

⁹ 'Foreign Labour in the United Kingdom: current patterns and trends', Labour Market Trends (October 2006), Office for National Statistics.

Chart 29: Distribution of reported hourly pay of workers registering on the WRS between March-May 2006



Source: Workers Registration Scheme, Home Office

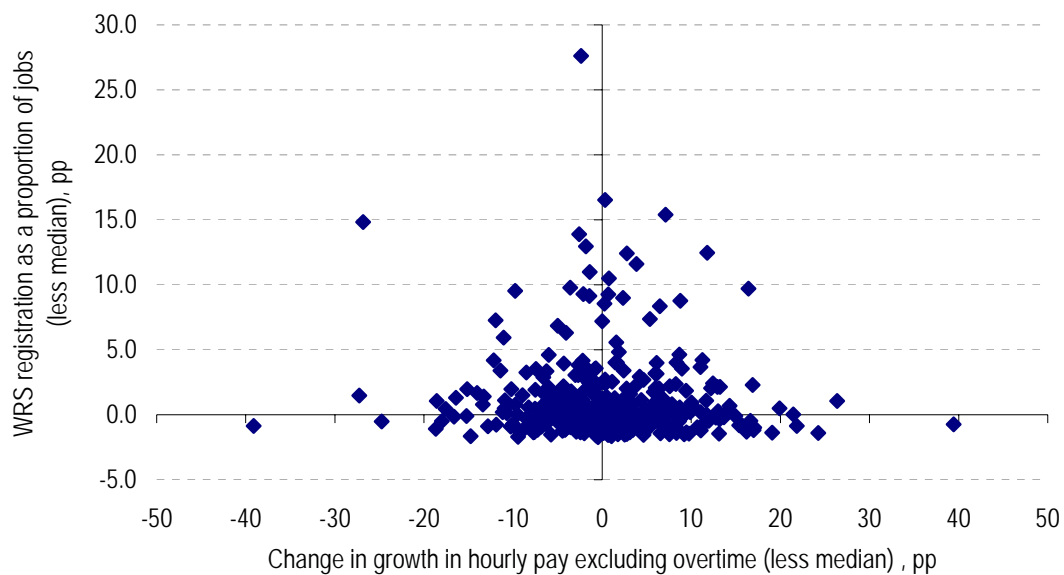
A significant increase in labour supply might be expected, other things being equal, to put downward pressure on wage growth. To test this we examined the impact of WRS-registered migrants on earnings growth at a local authority level. Chart 30 plots the change in average annual earnings growth by local authority against the ratio of WRS migrants to total employment for each local authority, less the median in both cases. If A8 migrants were having a significant downward effect on average earnings growth we might expect to see a negative relationship, with local authorities with higher proportions of WRS migrants working in them having experienced a relative slowdown in earnings growth. However, such a relationship was not found. Average earnings growth does not appear to have been effected, so far at least, by the level of WRS-registered migrants.¹⁰

Similarly, an increase in labour supply may theoretically lead to some displacement of labour and higher unemployment rates for other groups. But recent research by the Department of Work and Pensions¹¹ has also found little sign of any impact of A8 migrants on claimant count unemployment rates at the local level.

¹⁰ However as discussed, there are limitations with the various sources of data on migration one can use. These are preliminary results, looking only at the first two years of A8 migration to the UK.

¹¹ 'The impact of free movement of workers from Central and Eastern Europe on the UK labour market', Department of Work and Pensions Working Paper No.29, N.Gilpin, M. Henty, S.Lemos, J.Porter and C.Bullen.

Chart 30: Change in earnings growth between 2003-2004 and 2004-2006¹ compared to the ratio of WRS registrations to jobs by local authority



Source: Annual Survey of Hours and Earnings, Office for National Statistics; Workers Registration Scheme, Home Office

¹Average annual growth for 2004-2006

Of course the fact that a high proportion of A8 migrants appear to be paid the minimum wage would imply they are affected directly by the uprating of the NMW. As the minimum wage has increased faster than average earnings over the last two years this may be part of the reason why it is hard to see any dampening effect from migration on earnings growth in the aggregate data since A8 accession; it could still be possible that wage growth further up the income distribution has been dampened by the supply of migrants.

But it is also the case that migration has been important in addressing skills shortages in the UK. In this sense, migrants may not just be thought of as substitutes for domestic labour, but can also be complements, i.e. migration boosts the productivity of those already working in the UK economy by meeting the needs for certain skills. Under these circumstances one would not necessarily expect to see any wage dampening effect.

Looking forward, net inward migration is expected to remain fairly strong over the next few years. The Government Actuary Department (GAD) projects long-term net inward migration into the UK at 145,000 per year.

Annual leave

The Government has proposed increasing the current statutory minimum holiday entitlement from four weeks to 5.6 weeks (maximum 28 days), to implement its commitment to make paid time off for bank holidays additional to the current four-week holiday entitlement.

The initial consultation on these proposals closed on 22 September and the Government is currently considering the substantial number of responses received. The Government intends to publish a response to this consultation and launch a further consultation on the draft

regulations early in the New Year before the legislation is laid before Parliament for approval in the spring.

The increased holiday entitlement would be implemented by amending the current Working Time Regulations regarding the quantum of annual leave; it is likely that other provisions around annual leave would remain unchanged. The introduction of the increased holiday would be phased, with the entitlement increasing to 4.8 weeks (equivalent to an additional four days' holiday for someone working five days a week) from October 2007 and the remaining increase being introduced in October 2008 at the earliest.

Generally speaking it is thought to be disproportionately the lowest paid who do not currently receive a leave entitlement equivalent to the 28 days. There is therefore likely to be a significant overlap between those who benefit from the minimum wage and those who will benefit from the extension of the entitlement to annual leave. Similarly, firms that employ significant numbers of people at the National Minimum Wage may tend to be the ones who are obliged to increase their employees' leave most. Effectively for these employers the extension of annual leave will represent an increase in non-wage costs.

Currently existing data sources are inadequate to assess the extent of the overlap between leave entitlement and pay, or how many extra paid days leave people will receive on average. Therefore it is not possible to provide any accurate cost estimate for the policy at this stage or for the effects on the low-paying sectors in particular. The DTI has commissioned a survey to gather data that will help in estimating the costs more accurately. The survey was conducted between April and October. Results are currently being analysed and will be published as part of the Regulatory Impact Assessment when the Government responds to the initial consultation. We will provide the LPC with further information in advance of their decision as it becomes available.

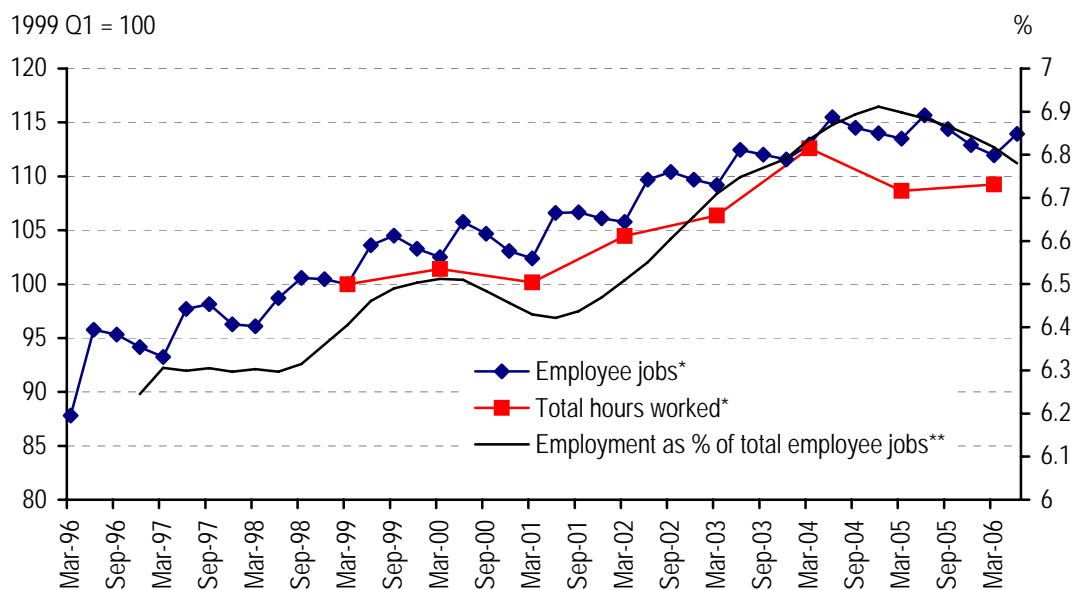
ANNEX A

Employment data in low-paying industries

This Annex looks at trends in employee jobs in the following low-paying sectors in the UK economy: hotels and restaurants, textile and textile products, security, cleaning, leisure, social care and retail. These are the main low-paying sectors in the UK economy and are the sectors that successive Low Pay Commission reports have covered.

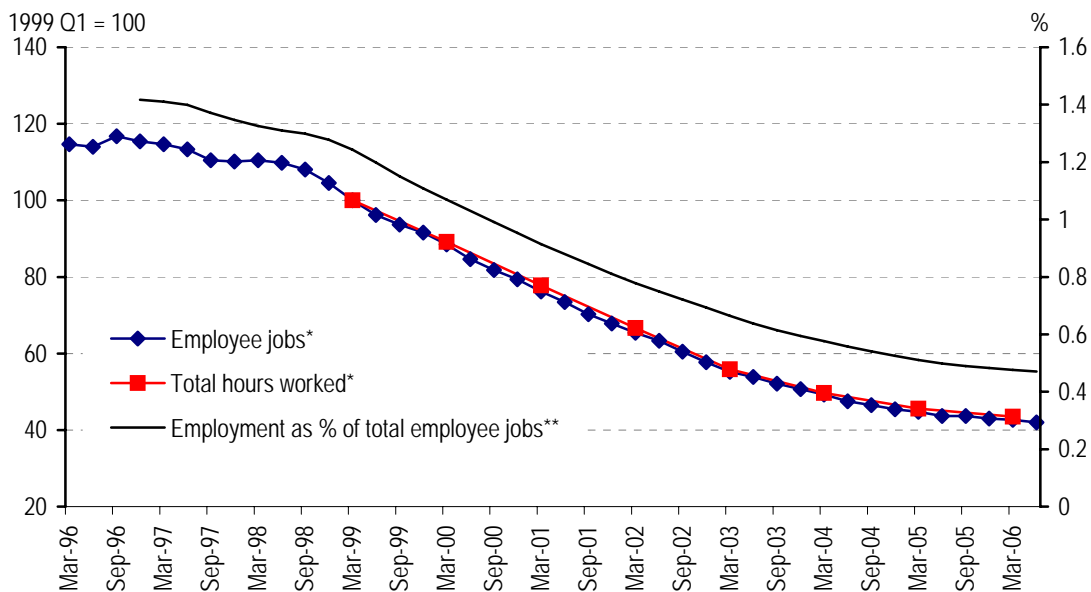
The following graphs show an index of employee jobs and an index of the total mean hours worked (1999 Q1 = 100) in each low-paying sector (left-hand axis). They also show the 4-quarter rolling average of the number of employee jobs in each low-paying sector as a percentage of total employee jobs (right-hand axis).

Chart A1. Employee jobs and total hours in hotels and restaurants



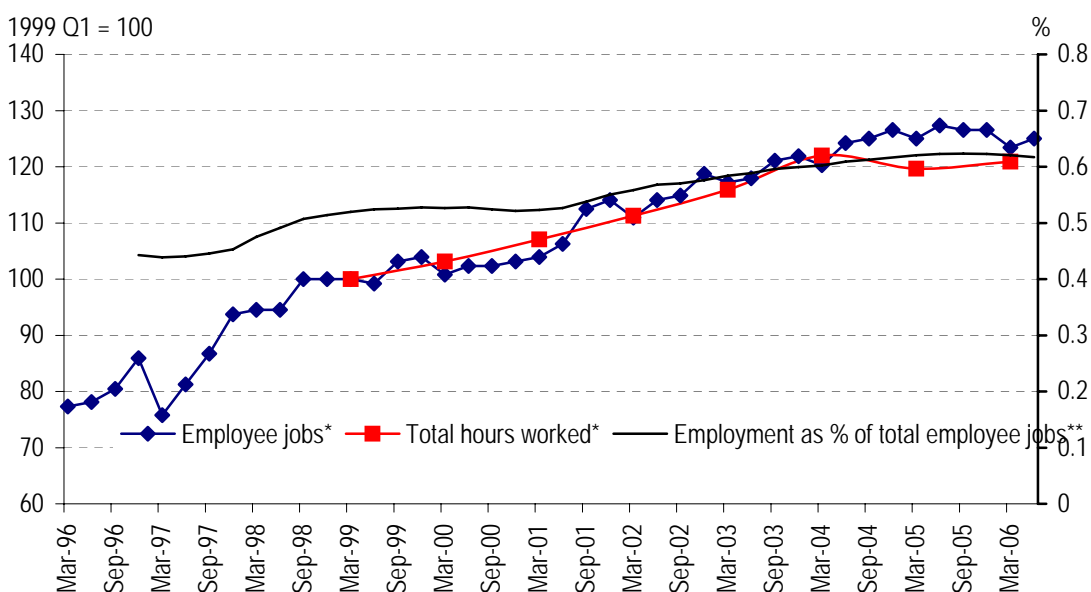
Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

Chart A2. Employee jobs and total hours in textiles and textile products



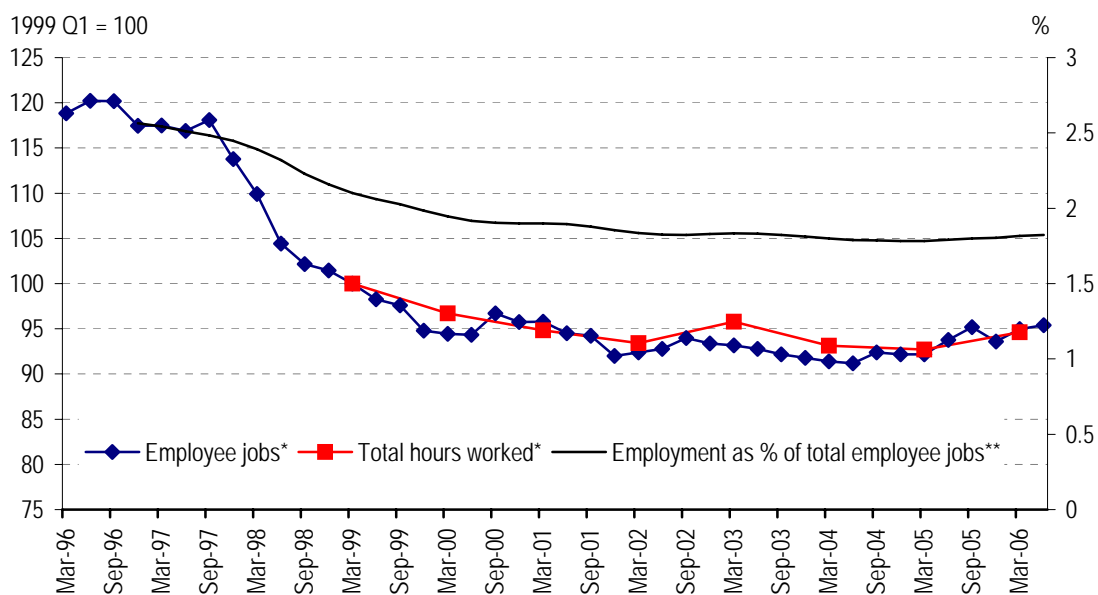
Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

Chart A3. Employee jobs in investigation and security activities



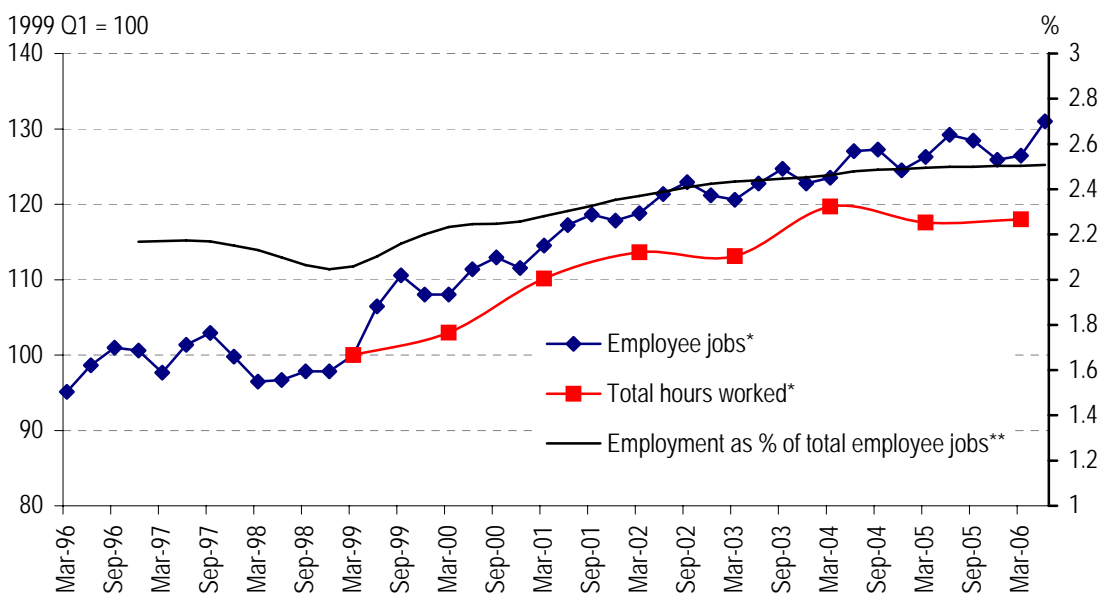
Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours data not available.

Chart A4. Employee jobs and total hours in cleaning



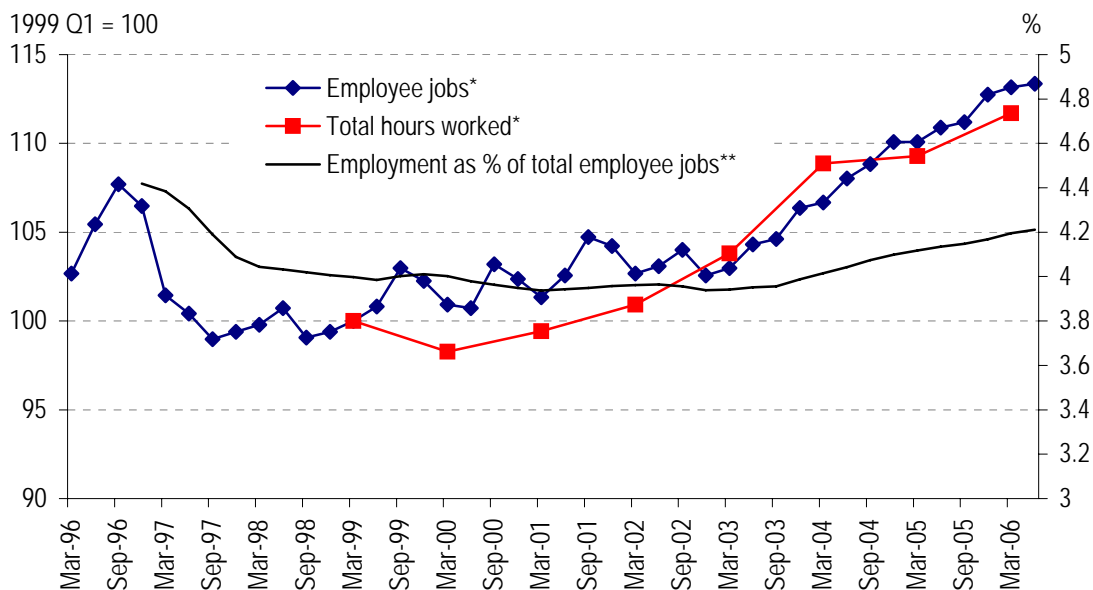
Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

Chart A5. Employee jobs and total hours in leisure, travel and sport



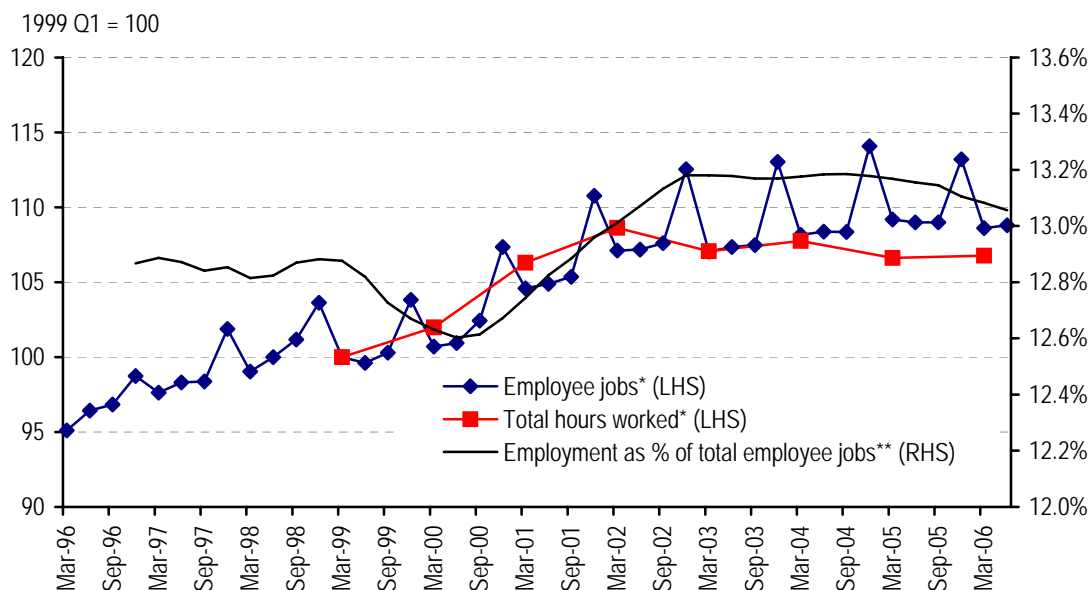
Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

Chart A6. Employee jobs and total hours in social care



Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

Chart A7. Employee jobs and total hours in retail



Source: DTI analysis of ONS' Employer Surveys; not seasonally adjusted. *1999 Q1 = 100. **four quarter moving averages. Total hours worked: employee jobs * mean weekly total hours from ASHE.

ANNEX B

Regional employment data in low-paying industries

Table B.1. Employee Jobs in the low-paying sectors by region (000's)

	North East	North West	Yorkshire & Humber	East Midlands	West Midlands	Eastern	London	South East	South West	Wales	Scotland	Great Britain	Y/Y*
Retail													
1995	114	342	252	207	255	284	396	416	252	123	266	2908	
1996	117	356	250	204	263	289	397	438	263	128	273	2979	2.4
1997	119	349	252	206	264	306	408	444	265	131	271	3013	1.1
1998	125	379	280	221	285	317	406	473	287	143	279	3195	6.0
1999	128	387	262	211	282	295	439	484	291	137	278	3194	0.0
2000	128	387	284	224	292	325	431	502	303	145	280	3302	3.4
2001	126	401	290	235	304	331	440	529	310	154	306	3426	3.8
2002	134	402	302	236	305	344	435	531	325	159	306	3479	1.6
2003	134	408	307	246	304	353	424	521	333	160	304	3493	0.4
2004	135	417	315	259	319	351	425	520	337	166	300	3545	1.5
Hospitality													
1995	51	157	120	88	124	115	224	182	141	65	149	1417	
1996	57	166	128	89	125	116	224	198	143	65	153	1465	3.4
1997	59	178	130	91	115	121	249	202	146	67	150	1508	2.9
1998	60	188	133	99	130	126	245	208	149	70	156	1564	3.7
1999	66	182	129	100	134	126	273	224	143	77	151	1606	2.7
2000	59	183	128	100	129	135	265	232	149	67	165	1611	0.3
2001	63	187	127	103	134	136	275	229	159	75	168	1656	2.8
2002	63	202	129	105	136	138	289	243	164	69	169	1708	3.1
2003	63	207	130	106	133	141	299	245	173	73	168	1737	1.7
2004	63	204	142	107	146	144	289	256	172	81	171	1775	2.2
Investigation and security activities													
1995	4	12	8	5	10	7	26	13	7	3	9	103	
1996	4	14	9	9	9	6	27	13	6	3	11	112	8.7
1997	7	15	10	7	10	8	28	15	7	4	11	121	8.0
1998	5	16	13	8	9	7	31	17	7	4	10	128	5.9
1999	6	17	11	8	9	7	34	18	6	4	12	133	3.7
2000	6	17	10	7	8	9	33	17	6	4	13	132	-0.6
2001	7	18	9	8	10	10	39	18	8	5	14	146	10.4
2002	6	20	11	11	11	10	39	20	9	5	12	152	4.3
2003	7	20	11	10	11	12	40	19	9	5	13	156	2.4
2004	6	21	12	10	11	13	38	19	13	5	14	162	3.9
Industrial cleaning													
1995	16	49	43	25	40	50	104	66	34	21	54	501	
1996	17	53	41	26	42	49	97	62	33	21	49	490	-2.2
1997	17	51	40	28	48	47	90	62	33	19	45	479	-2.2
1998	17	54	44	33	53	51	96	62	32	18	47	508	5.9
1999	14	50	41	27	44	45	96	62	29	18	42	469	-7.7
2000	12	48	42	26	43	49	102	64	31	18	48	482	2.9
2001	14	52	38	24	46	43	96	62	31	13	46	463	-4.0
2002	15	53	39	25	46	45	93	63	33	14	41	466	0.7
2003	14	49	39	19	45	42	89	69	34	14	45	459	-1.5
2004	55	41	37	21	45	38	94	76	32	17	44	423	-8.0
Social Work Activities													
1995	39	110	80	59	71	71	115	121	81	49	92	889	
1996	41	112	79	67	80	78	123	144	93	50	97	963	8.4
1997	41	109	76	60	74	77	112	123	86	46	82	885	-8.2
1998	41	108	77	62	78	79	119	121	90	47	72	893	1.0
1999	43	118	82	60	83	77	115	127	86	48	81	921	3.0
2000	43	115	78	62	81	79	116	128	87	49	82	920	0.0
2001	46	120	85	66	82	91	118	137	92	52	85	975	5.9
2002	46	120	91	65	82	84	123	137	89	55	94	985	1.1
2003	49	121	95	75	87	83	116	140	89	56	100	1010	2.5
2004	47	121	99	74	91	91	124	143	96	59	106	1050	4.0
Leisure													
1995	19	59	38	28	37	39	96	62	36	20	52	487	
1996	18	57	41	30	37	41	94	68	37	21	51	497	2.0
1997	19	56	44	31	38	42	96	68	39	22	50	507	1.9
1998	19	53	39	28	36	42	93	69	36	21	48	485	-4.2
1999	20	55	40	31	40	47	107	74	40	23	50	529	9.1
2000	20	59	46	35	41	48	103	83	41	24	52	552	4.4
2001	19	60	49	35	45	50	116	89	44	23	53	584	5.6
2002	24	66	49	39	47	55	114	89	46	24	57	612	4.8
2003	25	65	50	37	47	55	105	91	48	24	57	604	-1.2
2004	24	69	53	38	48	53	112	88	49	28	59	622	3.0

Source: 1995-1997 Annual Employment Survey Rescaled; 1998-2004 Annual Business Inquiry; ONS. *Y/Y shows percentage change of total regional employment from previous year.

ANNEX C

International comparison of minimum wage rates

Minimum wages of one form or another exist in 18 of the 30 OECD countries. In Europe there is a national statutory minimum wage in force in Belgium, France, Ireland, the Netherlands, Spain, the United Kingdom and several of the accession states.

Table C1. Current adult national minimum wage rates

Country	NMW rate	Last updated	Notes/sources
Australia	A\$511.86/wk	Oct-06	For employees aged 21 or over.
Belgium	€1,234.20/mth	Aug-05	For employees aged 21 and over.
Canada	C\$7.57/hr	n.a.	Average of provincial rates
Czech Republic	Kc48.10/hr	Jul-06	Applicable in 2nd year employment, ages 22+. Based on statutory 35 hour week.
France	€1,254.28/mth	Jul-06	Based on statutory 35 hour week
Greece	€605.8/mth	Sep-06	For single blue collar workers with no work experience.
Ireland	€7.65/hr	May-05	For employees aged 20 and over.
Japan	Yen668/hr	Oct-06	Weighted average of prefectural minimum wage rates.
Korea	Won124,000/wk	Sep-05	Based on an 8 hour working day. Applies to all regardless of age or nationality. There is no special treatment for young persons or trainees.
Lithuania	LTL600/mth	Jul-06	
Luxembourg	€8.69/hr	Oct-05	For employees aged 18 and over.
Malta	MTL250.81/mth	Jan-05	
Netherlands	€296.45/wk	Jul-06	For employees 18 or over. Excludes 8% supplementary holiday pay. Assuming a 40 hour working week.
New Zealand	NZ\$10.25/hr	Mar-06	For employees aged 18 or over
Poland	PLN899.1/mth	Jan-06	
Portugal	€385.90/mth	Jan-06	This particular wage order entitles a worker to 13 or 14 monthly payments pa.
Slovakia	SKK7,600/mth	Oct-06	
Slovenia	SIT125,052/mth	Aug-06	
Spain	€540.9/mth	Dec-05	
United Kingdom	£5.35/hr	Oct-06	
United States	\$5.15/hr	Sep-97	Minimum federal rate.

Source: FCO

Table C2. The national minimum wage 'bite' compared, 2006

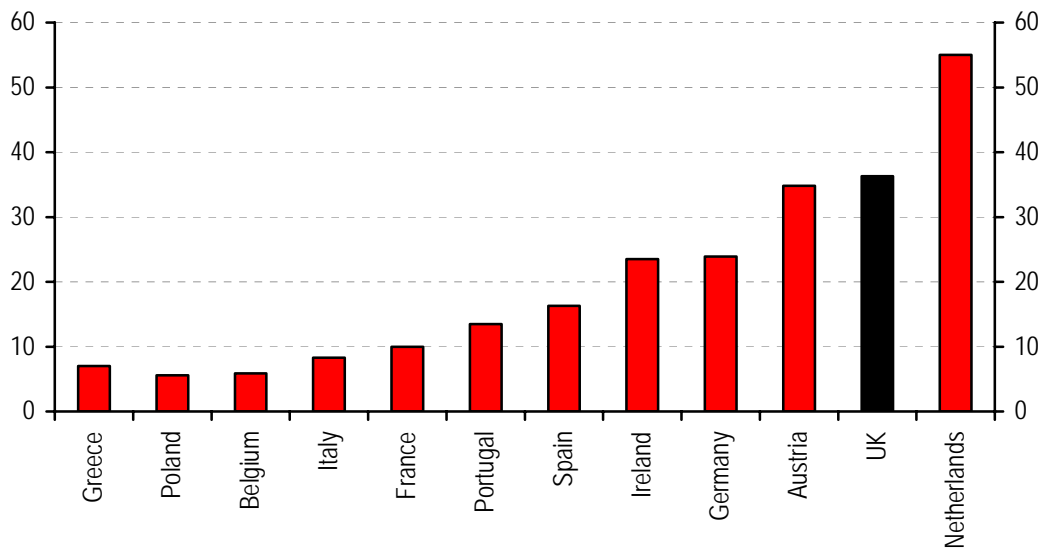
Country	NMW rate	Median pay rate	NMW as % of median	Average wage	NMW as % of mean
Korea ^(a)	KRW124,000/wk	n.a.	n.a.	KRW 566,769/wk	21.9%
Japan ^(b)	Yen668/hr	n.a.	n.a.	Yen2,251.5/hr	29.7%
United States ^(c)	\$5.15/hr	n.a.	n.a.	\$16.70/hr	30.8%
Poland ^(d)	PLN899.1/mth	n.a.	n.a.	PLN 2,611.93/mth	34.4%
Spain ^(e)	€540.9/mth	n.a.	n.a.	€1560/mth	34.7%
Canada ^(f)	C\$7.57/hr	n.a.	n.a.	C\$19.88/hr	38.1%
Lithuania ^(g)	LTL600/mth	n.a.	n.a.	LTL1,519.7/mth	39.5%
United Kingdom ^(h)	£5.35/hr	£10.45/hr	51.2%	£13.50/hr	39.6%
Portugal ⁽ⁱ⁾	€385.90/mth	n.a.	n.a.	€959.60/mth	40.2%
Slovakia ^(j)	SKK7,500/mth	n.a.	n.a.	SKK18,324/mth	41.5%
Czech Republic ^(k)	Kc48.10/hr	n.a.	n.a.	KC115.59/hr	41.6%
Slovenia ^(l)	SIT125,052/mth	n.a.	n.a.	SIT283,074/mth	44.2%
Belgium ^(m)	€1,234.2/mth	n.a.	n.a.	€2,662/mth	46.4%
Australia ⁽ⁿ⁾	A\$511.86/wk	A\$1,043/wk	73.1%	A\$829/wk	49.1%
Ireland ^(o)	€7.65/hr	n.a.	n.a.	€15.05/hr	50.8%
Greece ^(s)	€605.8/mth	€912/mth	66.4%	€1,191/mth	50.9%
Netherlands ^(p)	€296.45/wk	n.a.	n.a.	€582.69/wk	50.9%
New Zealand ^(q)	NZ\$10.25/hr	NZ\$17.00/hr	60.3%	NZ\$20.04/hr	51.1%
France ^(r)	€1,254.28/mth	€1958.2/mth	64.1%	€2440/mth	51.4%
Malta ^(t)	MTL250.81/mth	n.a.	n.a.	MTL430.2/mth	58.3%

Notes/sources: (a) 2006 NMW and earnings data, Korea National Statistics Office; (b) 2006 NMW and earnings data, Ministry of Health, Labour and Welfare; (c) 2006 NMW and 2005 earnings data, Bureau of Labor Statistics; (d) 2006 NMW and earnings data, Central Statistical Office; (e) 2006 NMW and 2005 earnings data, INE; (f) 2006 NMW and earnings data, Statistics Canada; (g) 2006 NMW and earnings data, Ministry of Social Security and Labour; (h) 2006 NMW and earnings data for 22+, ASHE; (i) 2006 NMW and 2005 earnings data, Ministry of Work and Social Solidarity; (j) 2006 NMW and earnings data, Statistical Office of the Slovak Republic; (k) 2006 NMW and earnings data, Czech Statistical Office; (l) 2006 NMW and earnings data, Statistical Office of the Republic of Slovenia; (m) 2006 NMW and 2004 earnings data, Federal Public Service Economy, SME and Energy; (n) 2006 NMW and average earnings, 2005 median earnings data, Australian Bureau of Statistics; (o) 2006 NMW and earnings data, Central Statistical Office; (p) 2006 NMW and 2005 earnings data, Social Insurance Institute; (q) 2006 NMW and 2004 earnings data, Centraal Bureau voor de Statistiek; (r) 2006 NMW and earnings data, Statistics New Zealand; (s) 2006 NMW and 2004 earnings data, INSEE; (t) 2006 NMW and 2005 earnings data, National Statistics Office.

ANNEX D

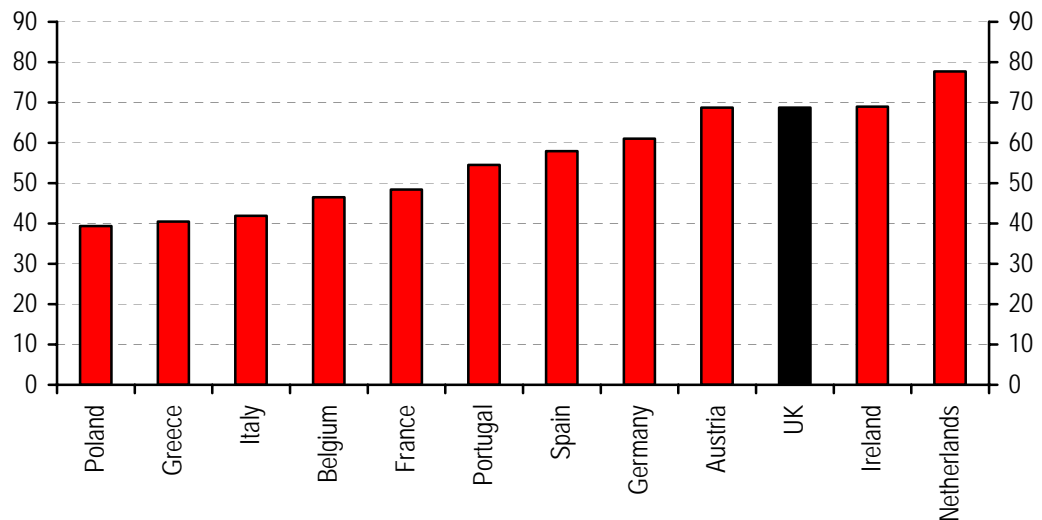
European employment and unemployment rates

Chart D1. Employment rate 16-19 year olds, 2006 Q2



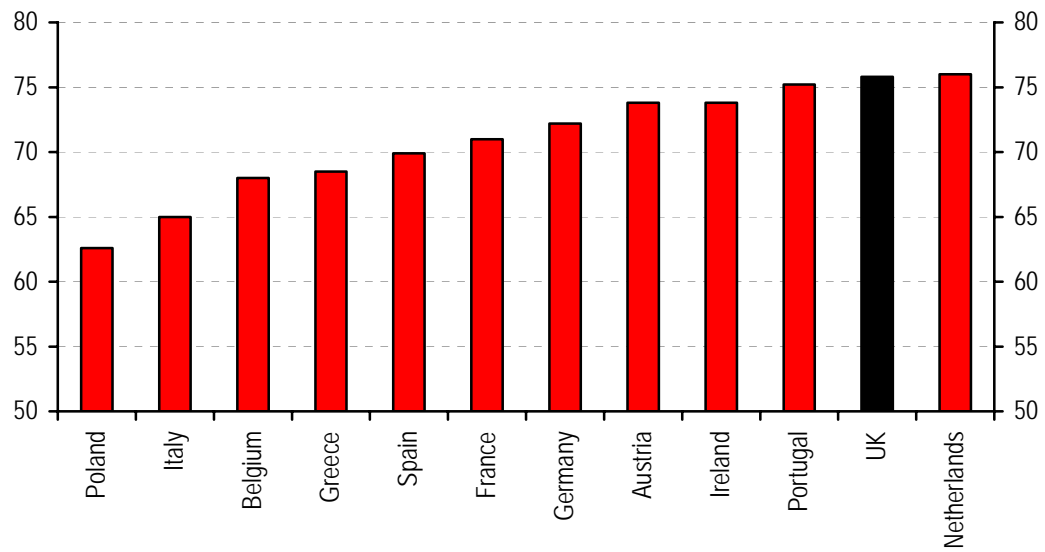
Source: Eurostat. *Germany rate for Q1 2005

Chart D2. Employment rate for 20-24 year olds, 2006 Q2



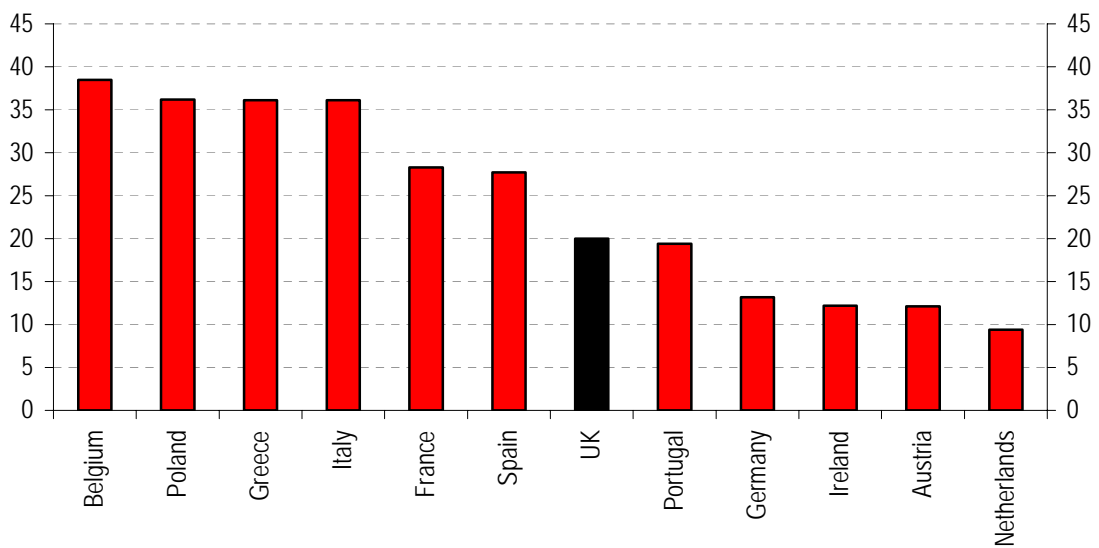
Source: Eurostat.

Chart D3. Employment rate for 25-64 year olds, 2006 Q2



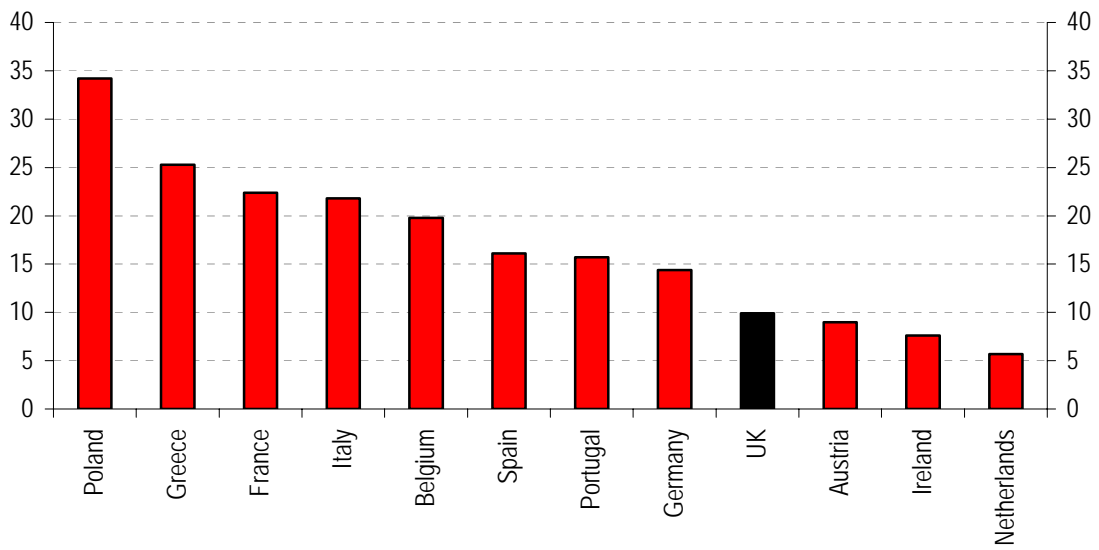
Source: Eurostat.

Chart D4. Unemployment rate for 15-19 year olds, Q2 2005



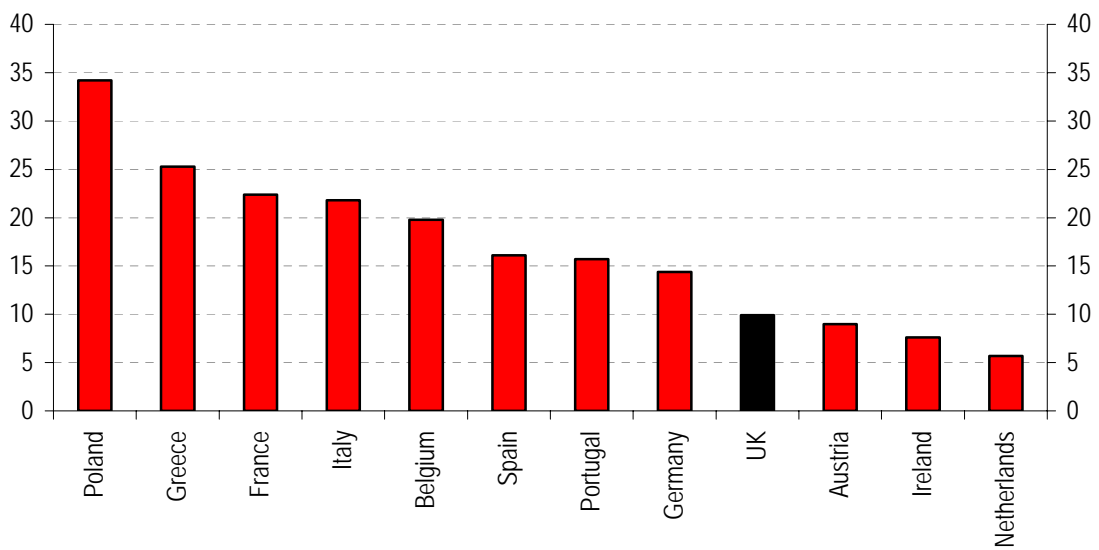
Source: Eurostat.

Chart D5. Unemployment rate for 20-24 year olds, Q2 2005



Source: Eurostat.

Chart D6. Unemployment rate for 25-64 year olds, Q2 2005



Source: Eurostat.

ANNEX E

Review of recent minimum wage research

This short review considers recent academic contributions on the effects of minimum wages. In the UK much of the recent literature has been commissioned by the LPC. For completeness this overview considers this work, alongside other UK and international studies.

Employment effects

In the main the UK academic literature, there is no significant evidence of negative employment consequences from the introduction and subsequent upratings of the adult national minimum wage.

Stewart (2004) uses difference-in-difference and wage gap models and various definitions of the wage. He concludes that the impact of the introduction of the minimum wage on the employment probability is insignificantly different from zero. Similarly, Stewart (2004) finds that the impact of the upratings of 2000 and 2001 had insignificant impacts. Dickens and Draca (2005) considered the 2003 uprating, finding insignificant disemployment effects.

There is some evidence for employment effects at the sectoral level. Galindo-Reuda and Pereira (2005) find some evidence that employment growth had been significantly lower in some exposed service sectors around the introduction of the minimum wage. They suggested that the minimum wage might have a slight disemployment effect that could have gone unnoticed (in absolute terms) when the level of the minimum wage was low and economic conditions benign. Machin and Wilson (2004), looking at employment in the UK care homes sector before and after the introduction of the National Minimum Wage, found some evidence of employment reductions in this sector amongst low-paid workers, although overall employment was growing in the care home sector at the time.

International evidence on the employment effects on adults also tends to point to these being limited. An OECD study (see Gregg 2000) confirms only small employment effects from increases in the minimum wage. Wolfson and Belman (2004) found that the increases in the US federal minimum wage between 1947 and 1997 raised average wages in many low-paid industries, but the effects on employment were typically mixed and insignificant.¹² Similarly, Lemos (2004) finds that minimum wage increases in Brazil have negligible effects on employment. O'Neill, Nolan and Williams (2006) used data on firms in Ireland to estimate the employment effects of the April 2000 introduction of a minimum wage in

¹² Neumark, Schweitzer and Wascher (2004) do however present evidence that the employment and hours of low-paid workers fall following increases in the minimum wage

Ireland. They found a negative effect on employment for the small number of firms most severely affected by the new minimum wage, but the size of these effects is fairly small.

Effects on working hours

There is some evidence that the introduction of the national minimum wage in the UK may have led to a reduction of working hours. Stewart and Swaffield (2004), using a difference-in-differences approach find that for those initially paid below the NMW the introduction of the NMW led to a cut in basic and total hours. Their New Earnings Survey estimates indicated a reduction of between one and two basic hours per week. LFS estimated total effects on basic hours were greater for men and lower for women than the corresponding NES estimates. But no evidence was found of an impact of either the October 2000 or the October 2001 uprating on adult men.

Effects on the distribution of earnings

The academic evidence of the effects of minimum wages on the distribution of earnings tends, on balance, to suggest that there is little evidence for spillovers further up the earnings distribution. This is somewhat at odds with the empirical observation in the UK that the bottom quarter of the earnings distribution has experienced faster growth than the median since the introduction of the minimum wage. But clearly other factors could also have impacted on the distribution over this period, and it is a legitimate area for further research.

Lam, Omerod, Ritchie and Vaze (2006) present evidence that suggests wages for jobs near the minimum level have moved closely with the NMW, maintaining differentials. Dickens and Manning (2004) investigated the impact of the minimum wage on the distribution of wages in care homes. They concluded that there was virtually no evidence for spillovers from the National Minimum Wage. Metcalf (2004) also finds no evidence for spillovers, with workers in the bottom decile of pay experiencing above average pay rises between 1998 and 2002 and there being no effects further up the wage distribution. Similarly, in the US Neumark, Schweitzer and Wascher (2004) present evidence that increases in the minimum wage are felt by low wage individuals, while individuals higher up the wage distribution are little affected.

Young workers

The academic evidence for the impacts of minimum wages on the young are a little more mixed, with somewhat more evidence for disemployment effects than is the case with adults.

In the UK it is probably too early to draw any firm conclusions on the introduction of the minimum wage for 16-17 year olds, although there are a number of recent studies. Frayne and Goodman (2005) estimated the impact of introducing a National Minimum Wage for 16 and 17 year olds on employment and education outcomes. They found that every 1 per cent increase in the 16-17 year old wage resulted in a 3.6 per cent decrease in employment in hours amongst this group, implying that a minimum wage of £3.00 would reduce employment in hours by around 6 per cent. However, this was an upper bound and if firms are able to absorb even part of the costs of higher wages the effects will be far more moderate. Dickerson and Jones (2004) used the Youth Cohort Study to

consider the labour market impact of a minimum wage on 16-17 year olds. They found that the largest single influence on the decision to remain in full-time education at 16 is GCSE attainment. Using GCSE attainment as the indicator of ability suggests that a minimum wage set between £2.50 and £4.00 will have negligible effects on education participation, irrespective of whether or not young people on government-supported training programmes are covered. And Neathey, Ritchie and Silverman (2005) found little evidence in the retail and hospitality sectors of a link between the minimum wage and decisions to employ young workers of various ages.

Several international studies have found evidence that minimum wages can have disemployment effects on the young. Campolieti, Fang and Gunderson compared transitions from employment to non-employment by youths in Canada over the period 1993-99. Using longitudinal data they found that minimum wage increases during the period of interest increased the transitions from employment to non-employment of employed low-wage youths by around 6 percentage points. These disemployment effects in turn implied 'minimum wage' elasticities of about -0.4 (ranging from -0.3 to -0.5). Wessels (2005) found significant negative effects on teenager labour force participation in the US. Looking at quarterly data from the US from 1979-2001 in all states, he found that increases in the national minimum wage had a negative effect on the labour force participation of 16-19 year olds.

Effects on firms

UK research into the impact of the minimum wage on firms has not found strong evidence for negative effects on firms. Machin, Draca and Van Reenen (2006) showed that although profitability fell in firms that were most affected by the introduction of the minimum wage, low wage firms were not forced out of business by the higher wage costs resulting from its introduction. They were also unable to detect evidence of higher wage costs being passed on in terms of higher prices. Forth and O'Mahony (2003) also found no evidence of the minimum wage leading to a general increase in unit labour costs over this period. Mason, Carter and Tagg (2006) found that the impact varied across regions and sectors, but the biggest impact found was in the hotels and catering sector and in the northern regions where businesses were less able to absorb the increased costs and were therefore more likely to raise prices in response.

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ANNEX F

Beneficiaries of the 2006 NMW uprating by sex and region

The DTI estimates that over 1.3 million workers stood to benefit from the October 2006 uprating of the National Minimum Wage (NMW). This estimate is based on 1p pay bands from the ONS' Annual Survey of Hours and Earnings (ASHE) 2006, and takes account of actual and forecast average earnings growth between April 2006 and October 2006. Of the estimated 1.3 million workers who stood to benefit, around two-thirds are women.

Table F1. Number of workers that stand to benefit from the October 2006 National Minimum Wage uprating by age and sex

	Male	Female	Total
16-17	10,000	10,000	20,000
18-21	70,000	60,000	130,000
22 and over	370,000	800,000	1,170,000
Total	450,000	870,000	1,320,000

Source: DTI estimates based on ONS' Annual Survey of Hours and Earnings (ASHE) 2006

Note: These data are based on 1p pay bands from the ONS ASHE and take account of actual and forecast average earnings growth between the period April 2006 and October 2006; uprating from £3.00 to £3.30 for 16-17 year olds, £4.25 to £4.45 for 18- 21 year olds and from £5.05 to £5.35 for those 22 and over. ASHE 1p pay bands measure number of jobs; therefore beneficiaries calculated assuming workers do not hold more than one job at the NMW. Numbers may not sum to total due to rounding.

Estimates of beneficiaries by country and government office region are also provided (Table F2).

Table F2. Number of workers that stand to benefit from the October 2006 National Minimum Wage uprating by country and government office region

Country or region	Beneficiaries
Wales	70,000
Scotland	140,000
Northern Ireland	50,000
England	1,060,000
North-East	80,000
North-West and Merseyside	160,000
Yorkshire & Humberside	130,000
East Midlands	120,000
West Midlands	140,000
Eastern	110,000
London	80,000
South East	130,000
South West	110,000
United Kingdom	1,320,000

Source: DTI estimates based on ONS' Annual Survey of Hours and Earnings (ASHE) 2006

Note: These data are based on 10p pay bands from the ONS ASHE and take account of actual and forecast average earnings growth between the period April 2006 and October 2006; uprating from £3.00 to £3.30 for 16-17 year olds, £4.25 to £4.45 for 18- 21 year olds and from £5.05 to £5.35 for those 22 and over. ASHE 1p pay bands measure number of jobs; therefore beneficiaries calculated assuming workers do not hold more than one job at the NMW. Numbers may not sum to total due to rounding.

