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NIESR RESEARCH SUGGESTS THE NATIONAL MINIMUM WAGE NEED NOT HARM YOUTH EMPLOYMENT

Today the NIESR published research, supported by the Low Pay Commission and the ESRC, that sheds new – and surprising – light on the impact of the minimum wage on youth employment. As low-skilled young people become entitled to the higher adult rate of the minimum wage, their employment rate actually goes up.

The National Minimum Wage (NMW) in the UK is set differently for different age groups so that young, low-paid individuals experience a legislated hourly wage increase of about 16-20% when they qualify for the adult minimum rate. Before October 2010 the adult rate applied to workers age 22 and above. Since then it also applies to workers age 21.

This step change in individuals' entitlements when they become entitled to the higher rate provides an important insight into the employment impacts of higher minimum wages. Specifically, the research uses a regression discontinuity approach that compares employment outcomes for individuals around this age threshold. In this framework, changes in employment for individuals who are a few months younger and older than 22 years provide an estimate of the employment effect of the legislated wage increase.

The discussion paper, "The UK Minimum Wage at Age 22: A Regression Discontinuity Approach", by Richard Dickens, Rebecca Riley and David Wilkinson, shows that on turning 22, the employment rate among low skilled individuals **increases** by about 2-4% points. Reductions in unemployment and inactivity account for some of this change. In other words, a higher minimum wage - for this group, and in the relevant range – does not appear to harm their employment prospects – indeed, if anything, the opposite.

These findings seem counterintuitive, and in an idealised perfect model of the labour market they would be. But, there are perfectly rational explanations. The results here are consistent with the hypothesis that on turning 22, young low skilled people find work more attractive compared to when they were 21 years old, because the wage on offer has increased. This may induce them to increase participation in the labour market, or to increase their job search intensity.

It is important to note two points. First, although these research findings do offer some insight into the mechanisms impacting upon employment among these young workers, one should be cautious about generalising these to the wider labour market. Second, these findings are largely based on the experience of the NMW over a period of strong employment and economic growth. It is not clear whether in a weaker labour market, the positive impacts on employment of increasing the minimum wage (from creating incentives for workers to work) would outweigh the negative ones (from creating disincentives for employers to hire).

Notes to editors:

The discussion paper will be published on 13 April 2011 and will be freely available on the NIESR website. Please see the attachment.

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