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Minimum wage rises cause only ‘modest’ job losses, says report

1 Feb 2019 By Annie Makoff-Clark

Manufacturing and retail sectors most at risk from drive to automate or offshore as rates pick up



Increases to minimum wages have only “modestly” increased the risk of job losses due to automation or offshoring, according to a new report by the Low Pay Commission.

The research into the effect of minimum wage increases in the UK over recent years said there was little evidence to suggest increasing rates for the lowest paid workers had a significant adverse effect on job security and employment rates.

The report said some sectors – including manufacturing and retail or roles involving administration, record keeping or call centre operations – were more vulnerable, although the statistics imply that employers have not yet been investing in technologies to make their workforces more productive.

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The commission found that a £1 increase in the minimum wage lead to a 0.24 and 0.15 per cent decline in the share of jobs which could be automated or offshored respectively, which meant 45,000 people in total could be affected.

Those found to be most at risk of job loss due to automation were workers in manufacturing, particularly low-skilled males, older and minority workers, as well as women working part-time in retail.

In the case of manufacturing, a £1 increase in the minimum wage created a 0.58 and 0.34 per cent decline in the share of manufacturing jobs that could be offshored or automated.

The UK has had a minimum wage since 1999. In 2015, this was replaced for over-25s with the national living wage, which was initially set at £7.20. It increased in April 2018 to £7.83, up from £7.50, and is set to rise to around £8.60 by 2020.

Writing in the report, Grace Lordan, professor of economics at the London School of Economics, said evidence had suggested firms might re-assess their production processes following minimum wage increases to “consider offshoring and automation”, but that so far change driven from within companies “has been limited”, implying that businesses are not investing in productivity boosting technology.

She suggested it was possible that firms were using other means to reduce costs, such as substituting technology and decreasing hours in some cases rather than cutting jobs all together.

“Minimum wages may act as a price shock to the marginal cost of labour, which if high enough can cause firms to substitute labour with relatively cheaper technological innovations... the overall end being that minimum wage increases have the potential to change the type of work available for low-skilled individuals,” she said.

But Dan Pitchford, AI expert and co-founder of AI Business, said it was “difficult to agree” with the LSE findings that a £1 rise in minimum wages would

result in job losses due to automation.

He said: “Businesses are already investing in automation, therefore it is naïve to believe that a marginal rise in the minimum wage will create a loss of jobs for low-skilled workers. Businesses that have succeeded in implementing automation in their workflow are the ones that promote human workers and robots to collaborate and become more efficient.”

In May last year, *People Management* reported on research by the Organisation for Economic Co-operation and Development (OECD) which found that [AI and robots would replace “significantly fewer” jobs than previously thought](https://www.peoplemanagement.co.uk/experts/research/the-robots-arent-coming) (<https://www.peoplemanagement.co.uk/experts/research/the-robots-arent-coming>).



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