

Paying the living wage could increase employment

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Howard Reed [has a new report out for Unison on the living wage](#). In the interests of full disclosure I should mention Howard and I have worked together a number of times, but not on this project.

I strongly recommend reading the report. It's not without its critics: [Duncan Weldon at the TUC links to some alternative view here](#), but I am much inclined to Howard's view: I think his assumptions are realistic. [His conclusion is](#):

This research report has shown that, using reasonable assumptions about the structure of the labour market and the current scope for economic stimulus in the UK economy, it is unlikely that the extension of the living wage to all UK employees would result in any substantial aggregate employment losses. In fact, it is quite plausible that adopting the living wage on a statutory basis could actually increase overall employment in the UK.

This is for two reasons. Firstly, previous research from the IPPR/Resolution Foundation which estimated that the immediate an across-the-board living wage would result in 160,000 job losses is almost certainly an overestimate (as the authors of the research themselves admit). Realistic assumptions about the structure of labour markets and the potential for the living wage to induce productivity gains and reduce turnover costs to businesses imply that the number of job losses arising from a statutory living wage would most likely be considerably less than that, even if there were no scope for the living wage to stimulate the macroeconomy.

The second reason — ignored in most of the previous discussions about the living wage in the UK, but critically important — is that there is considerable scope for the living wage to stimulate the economy. Unemployment and under-employment in the UK economy are at historically high levels, and recovery from the “Great Recession” of 2008-09 has been weak and patchy at best. Using recent estimates from the IMF of the effectiveness of fiscal stimulus in the recent economic depression and combining them with the UK Office for Budget Responsibility’s own multiplier estimates, this report has shown that once the potential macroeconomic stimulus effects of extending the living wage to all employees are taken into account, it is more likely than not that a statutory

living wage would result in a modest boost to aggregate employment.

A statutory living wage would therefore result in an economic 'win-win' on a number of levels. It would boost demand and economic growth, reduce earnings inequality, increase the share of wages in national income, and reduce the extent to which the benefit and tax credit system has to prop up low wages to reduce in-work poverty. By insisting on a voluntary approach to extending coverage, current proponents of a living wage are being unnecessarily cautious. This report finds that a policy of extending the living wage to all employees on a statutory basis — effectively making the National Minimum Wage a "National Living Wage" — should be a priority for policymakers.

It is that second point that is key - and which is ignored by those mired in microeconomic thinking. I believe that intuitively giving several million people more disposable income and greater hope for the future is bound to stimulate the economy. What could deliver a more significant "feel good factor" than that?

The counter argument is that those who profit from the minimum wage as it now is better more than those on the lowest paid in society from the surplus their effort creates. That does not make sense using microeconomic marginal analysis and it does not make social and macroeconomic sense. I am with Howard on this one.