

## Labour's National Minimum Wage

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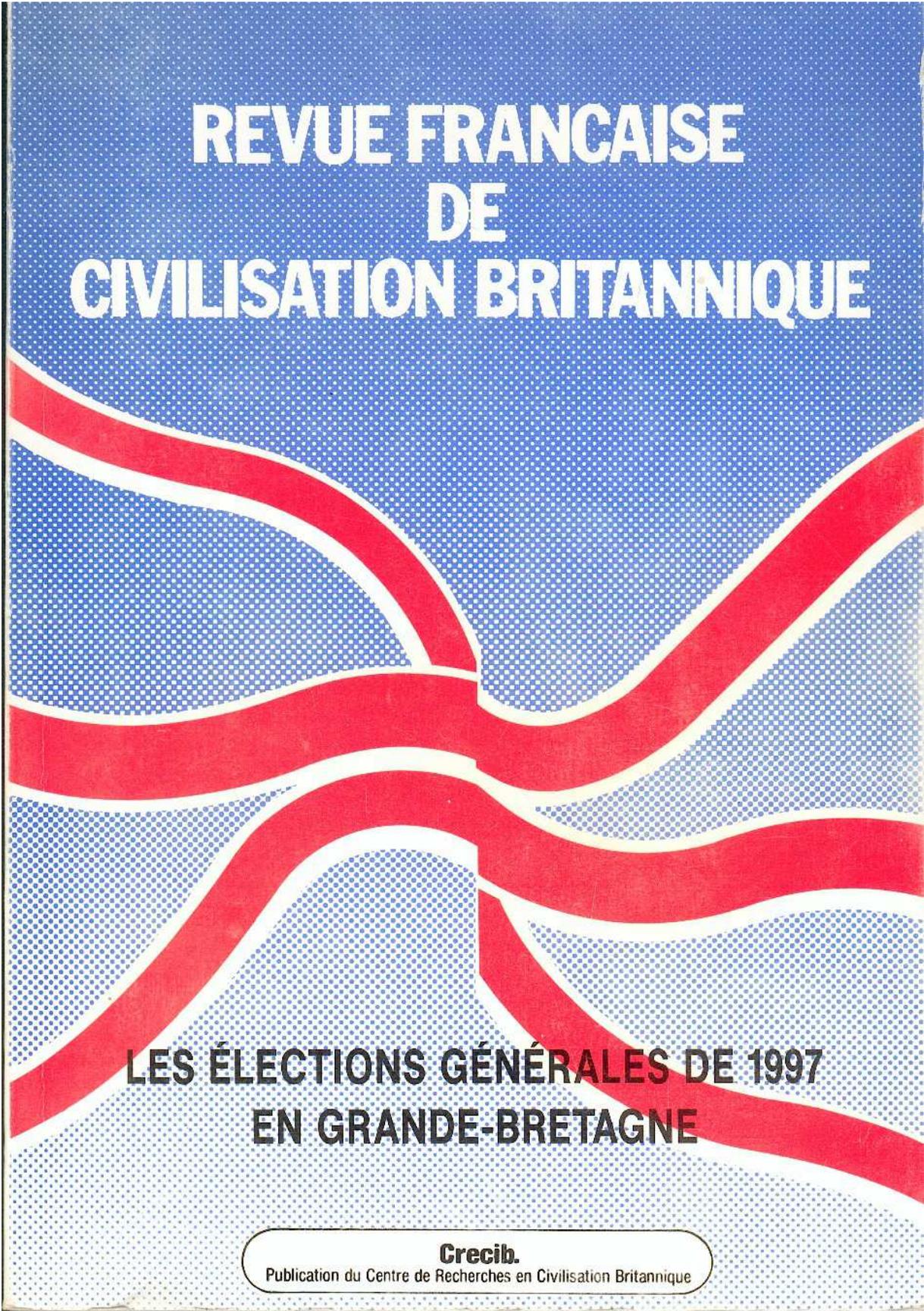
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## LES ÉLECTIONS GÉNÉRALES DE 1997 EN GRANDE-BRETAGNE

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# ***Labour's National Minimum Wage***

PAR

**Timothy WHITTON\***

## ***ABSTRACT***

### ***LABOUR'S NATIONAL MINIMUM WAGE***

*Having committed itself to introducing a national minimum wage, the Labour Party is now faced with the difficult task of setting a satisfactory rate. Responsibility for this has been given to the Low Pay Commission which will have to decide exactly what the minimum wage is supposed to achieve before calculating the cash equivalent. The Labour Party fought the 1997 election pledging a fairer distribution of wealth and the national minimum wage is only one part of their overall policy designed to optimise interaction between social and economic policy.*

*The minimum wage is no magic wand capable of banishing household poverty with one wave. If Labour wants to ensure its success, they should acknowledge that past failures will take time to repair. The minimum wage's future potential will largely depend on their ability to cut their coat according to their cloth.*

## **RESUME**

### **LE SALAIRE MINIMUM DU PARTI TRAVAILLISTE**

Le parti travailliste s'est engagé à instaurer un salaire minimum interprofessionnel et doit à présent décider du taux auquel celui-ci sera établi. La responsabilité de cette tâche délicate sera confiée à la Commission des Bas Salaires qui devra définir les buts du salaire minimum avant de déterminer le taux horaire correspondant. La campagne électorale en 1997 fut l'occasion pour le parti travailliste de se porter garant d'une distribution plus équitable des richesses nationales et le salaire minimum ne constitue qu'une partie de sa politique globale dont l'objectif est de rendre optimale l'interaction entre politique sociale et politique économique.

Le salaire minimum n'est pas une baguette magique capable d'un seul coup de mettre un terme à la pauvreté dont souffrent certaines familles. Si le parti travailliste souhaite que cette initiative soit un succès, il devra reconnaître que les échecs du passé ne pourront être effacés immédiatement. L'évolution potentielle du salaire minimum dépendra en effet de la manière dont les travaillistes sauront gouverner selon leurs promesses électorales.

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By the time this article comes to print, the Low Pay Commission may possibly have chosen the rate at which the national minimum wage should be pitched. Given Labour's commitment to the issue and their considerable majority in the House of Commons, legislation designed to enforce the minimum wage should promptly find its way to the statute books. In the past, attempts to provide the British workforce with an across-the-board safety net, a floor beneath which wages should not be allowed to fall have all largely failed since one or other of the social partners has consistently refused to cooperate leaving the minimum wage as perhaps the most controversial political and economical labour market debate at present.

The trade unions' reticence is a case in point for it has taken them the best part of a century to come to terms with the fact that their influence could never extend out to embrace every nook and cranny of British industry. Their traditional lack of commitment to the national minimum wage has inevitably led to pockets of low paid workers becoming endemic in Great Britain which partially explains why the unions have recently thrown their weight behind Labour's plan to introduce legislation. Both the Labour Party and the TUC know that they will receive support from their European partners on the issue and the recent signing of the Social Charter means that in the long run there is no turning back on their pledges to eradicate pittance wages.

Added to this is the fact that the flexibility of labour and wage structures which go hand in hand with political devotion to (international) market values, have exaggerated the effects of low wages to the extent that they are no longer an isolated phenomenon but fully integrated into the labour market. To this end, we are constantly reminded that the unemployment rate in Great Britain has been continually falling over the past decade. Even if we disregard the various ways in which unemployment statistics can be tampered with what is more to the point is the actual cost of this low rate of unemployment in terms of "proper" jobs.

Although political authorities seem to devote their entire attention to the impact a national minimum wage would have on employment, they are constantly reminded by their social partners of a secondary issue, namely poverty. Far from being a distraction from the main task of getting the unemployed back to work, the idea of somehow linking the introduction of a national minimum to the alleviation of at least some form of poverty seems at first sight to be a very laudable pursuit. The correlation between the two is in many cases crystal clear but the danger lies in expecting too much from a minimum wage too soon. It can eradicate pittance wages in one fell swoop or at least reduce them to the furthestmost corners of industry where, come what may, very little can be done to stop the most unscrupulous employers from exploiting their workforce. On the other hand, since poverty - and above all household poverty - is more often than not due to exclusion from the labour market, the poor could be quite simply bypassed by any benefits stemming from the minimum wage.<sup>1</sup>

One of the most popular qualities attributed to the minimum wage - peddled, it must be said by some of the most vociferous pressure groups - is its ability to create employment. This "monopsonistic" claim has become popular in recent years essentially because it is assumed that the labour market from which low wage earners are drawn is increasingly limited. Although monopsony is a theoretical curiosity, a closer look will show that applying it to the low wage sector of British industry is mainly a distortion of text book econometrics whatever the philanthropic motivations may be.

There is no doubt that the national minimum wage will upset the wage hierarchy as it stands and the potential “knock-on” effects involved could be disastrous. One way of minimising these and making the national minimum more acceptable would be to state just who it is supposed to protect. For the time being, the actual aims of the minimum wage - in terms of job quality for example - have been somewhat swept under the carpet because of the obsession with fixing a rate at which it should be set. Perhaps with the election now well over, the Low Pay Commission will be able to devote more time to some of these issues. Whatever the case, this article will attempt to deal with them in more detail.

### *Union opposition*

The idea of introducing a national minimum wage is not new but the political authorities in Great Britain have always preferred a selective approach to an across-the-board one. This attitude led initially to the creation of the Trades Boards in 1909 which in 1945 were converted into the Wages Councils.<sup>2</sup> When in 1953 the system was at its peak, the Wages Councils were fixing minimum hourly rates of pay for some 3.5million workers in 66 different sectors of British industry. What kept the councils alive for so long was the hope that they would gradually disappear as workers in the protected sectors became organised enough to negotiate their own rates of pay without any outside help. The fact that there were still 26 councils - of which 24 functioned annually - when the system was abolished in 1993, is the proof that try as they might, the unions were just not in a position to promote worker organisation sufficiently for low pay to be eradicated in the course of time.

In view of this, although the Wages Councils were cumbersome and archaic they did tally with the overall union attitude towards minimum wages since their aim was to provide minimum wage fixing machinery *until* workers were organised enough to be able to fend for themselves. This did happen in many cases but abolition left about 2.5million workers without any wage protection whatsoever.

However by dint of believing that collective bargaining was the only healthy way of dealing with low wages, the unions almost promoted the idea that a national minimum wage would in many ways hinder prospects of extending their influence further afield. If minimum wages were the main reason for employees working outside the sphere of influence of an organised union wanting to establish some sort of local organisation, their initiative would be instantly thwarted by the introduction of a national minimum. Although it would be rather churlish to believe that unions are constantly seeking to harness the influence of organised workforces to the extent of preying on them, this aspect cannot be overlooked.

Linked with this is an age-old union tradition that wage bargaining is part of union prerogative and pride; any outside intervention implies quite simply that unions have failed in their task to secure decent working conditions for their ranks and this probably explains their reluctance in admitting that the national minimum wage has become a necessity and a moral obligation.<sup>3</sup> In fact the Wages Council system was ideal for the unions insofar as while the most exposed flanks of British industry were protected by legislation, they could concentrate their efforts on the more organised sectors. There was always the hope moreover that the Wages Councils would indeed turn out to be only a temporary measure and would eventually disappear along with the problem of low wages.

### *Support for Labour's minimum wage*

It was not in fact until the late 1980s that the TUC began to offer serious support for Labour's plan to bring in a national minimum wage. Until then, their efforts to alleviate the plight of the low paid had been very half-hearted even though every TUC annual congress was the opportunity for the main unions to make solemn declarations on the issue.<sup>4</sup> This commitment to the national minimum went hand in hand with the Labour Party's pledge, should it be returned to power, to seriously consider the issue. The TUC was coming round to the idea that union influence alone was not sufficient to secure the right to a "fair" wage for all workers:

*An effective fair wages strategy must be based on the twin pillars of collective bargaining and legislative support. Collective bargaining **by itself** will inevitable fail to reach many of those in poorly organised sectors where low pay so often prevails.*<sup>5</sup> (emphasis added)

The 1980s had indeed witnessed the gradual whittling away of union control over British industry and the sphere of pay bargaining was no exception. To this end the 1946 Fair Wages Clause which ensured the automatic transfer nationwide of union rates and conditions of work negotiated locally, was repealed in 1982. This had been the unions' idea of "fairness" in pay bargaining but was not to survive the sweeping trade union reforms introduced by the Conservative government.

Meanwhile, the TUC was faced with the problem of deciding on the sort of rate at which the national minimum should be set. Although the national minimum as an issue is not an election winner or loser, when translated into an hourly rate that will become a legal requirement, it can have serious effects on voting patterns. Very little reliable statistical information exists on this particular point but the principle of introducing a minimum wage is far more acceptable than its actual adoption. The concept can seem "fair", but when a statutory minimum is actually suggested, the immediate effects on wage bills, employment and general financial strategy become the centre of the debate. This explains the apparent dilly-dallying of the TUC and especially the Labour Party in announcing their respective minimum wage targets for both of them were fully aware of the dangers involved.<sup>6</sup>

In order to soften the blow, the TUC linked the idea of a national minimum wage to Labour's pledge to tackle poverty. The minimum wage *per se* could be seen as a major interference in pay bargaining and the unions stood to lose by offering their support. Nevertheless by accepting the fact that the minimum wage had the potential of making serious inroads into reducing poverty, the unions were making an important concession. This was a strategic compromise for not only were they bearing the banner of justice and fairness but they were also showing their will to strive politically with the Labour Party to achieve a common goal, perfectly in tune with the sort of partnership that New Labour is keen to foster. Public opinion can only cast a sympathetic eye on such an attitude devoid of traditional bullying tactics, and adopts a far friendlier stance towards minimum wages. At the same time, "decent" pay remains a rather vague notion and enables those who promote it to brandish it as an ideal and not merely an hourly rate instantly to be pounced upon by political opponents eager to calculate the harm it will inflict on the national economy.

After the 1992 defeat of Labour, the TUC suddenly became bolder on the minimum wage issue and it became common practice to endorse a target at each annual conference. This

culminated in 1996 when it published *Arguments for a National Minimum Wage*, a clear defence for a national minimum far more ambitious than the rates that the recently abolished Wages Councils had been negotiating annually. The TUC conference in September 1996 was indeed fraught with clashes between the Labour Party and individual unions over demands concerning the rate at which the minimum wage should be pitched. The Labour Party sought to play down the issue by adopting the wise man's approach namely that even if the national minimum was an electoral commitment, setting the actual rate was best left until after the election.

*Mr Blair has made it clear the minimum wage will be set at a level the country can afford. A Low pay Commission - made up of employers, unions and academics - will be told not to recommend a figure that could be seen as damaging public finances or endangering jobs.<sup>7</sup>*

In this way it was hoped that the TUC would continue to support the idea but would not endorse the more outrageous rates proposed by some of the more vociferous unions such as UNISON and the NUM. The tactics worked only partially for the TUC called for “*more than £4 but [would leave] the precise figure flexible until after the election, alongside the demand for £4.26 in the first year of a Labour government*”.<sup>8</sup> This position was to take priority over the rebel unions' claims.

### ***Possible disemployment effects***

It is not possible to set a perfect rate given the industrial environment which will be affected. If the “least worst” approach is adopted, the national minimum will be constantly beleaguered with its own negative connotations. Somewhere between the two however there is the distinct possibility of exercising a certain number of political choices that will at least have the merit of getting the national minimum on the statute books. The minimum wage will represent a definite attempt to set a floor to wage levels.

Defining what a decent minimum is in terms of wages is of course highly subjective and a plethora of factors have to be taken into account: if the national minimum is set too high then it will generate unemployment since employers might reduce output and lay off workers in order to maintain their wage bill, or displace investment in labour to investment in capital or in machines. Alternatively higher wages can lead to price rises which in turn mean inflation, lower competitiveness and the well-known consequences this has on employment. Even if employees benefiting immediately from the national minimum manage to retain their employment, in the long run they could be threatened by this inflationary cycle.

The inflationary effects of an ambitious minimum are even more apparent when the ‘knock-on’ effects are taken into consideration. Very briefly, not only would a high minimum wage immediately affect in one way or another all employees whose pay is below the rate but also those with higher wages, keen to maintain wage differentials.

### ***The monopsonistic claim***

Despite the rather obvious disemployment effects of a minimum wage set above market clearing levels it has become fashionable recently to suggest the contrary. This is particularly the case for the Low Pay Unit which has been campaigning for years for the introduction of a

national minimum wage. Although the Unit is a reliable source of information when denouncing the scandalous exploitation of employees in some of the lowest paying sectors of British industry their use of the monopsonistic claim in presenting a case for a minimum wage leaves a lot to be desired.

Monopsony is used to describe a market in which there is only one buyer, for example of labour. The textbook example of monopsony is the one-company town (e.g. a lumber settlement in Oregon). A monopsonistic employer determines his wage rate according to the number of workers he needs to attract into employment but will restrict the level of employment in his establishment so as to limit the extent to which he will drive wages up against himself. Employment in a monopsonist market will therefore be lower than in a competitive one.<sup>9</sup>

Should a minimum wage be introduced in a situation of monopsony, the employer will have no incentive to restrict the amount of labour resulting in both an increase in employment *and* wage rates. This phenomenon probably accounts for the enthusiasm with which monopsony is used in the defence of a national minimum wage. What could be better indeed than introducing a minimum wage that would create employment?

The confusion lies firstly in the fact that the workforce operating in the low paying sectors is similar to the textbook example of monopsony but not in the way that many national minimum wage advocates would have it. Skills and qualifications are largely homogenous in both but whereas wages in the lumber settlement are used to attract workers until the employer's industrial needs are satisfied, this is not the case in Britain where the labour market is largely competitive and subject more and more to the conditions of the international market. Wages are largely dictated by the workings of each single labour market operating under the auspices of the national economy including its vices and virtues, a far cry from the situation that prevails in the Oregon lumber settlement where employers' wage strategy is largely free from the constraints imposed by the outside world.

What must be retained even so from the monopsonist argument is the homogeneity of the workforce that would be affected by minimum wage legislation. Generally speaking skills and training in the low paying sectors are minimal.<sup>10</sup> Because of this and the pressure brought to bear by unemployment and more stringent laws concerning access to benefits, they are increasingly vulnerable to any displacement of job seekers from other even higher paying sectors where employment prospects are grim. As a result, competition is if anything far more fierce because of the potential workforce available, enabling employers, should they so desire, to compress wages even further.

By creating an artificial wage floor above the market clearing level in these sectors, it is quite obvious that employment would be affected especially for those that it is designed to protect, namely employees ill-equipped to defend their own interests. Quite apart from destroying normal employment possibilities, a high minimum wage would make some employment attractive to workers with greater skills and qualifications thus excluding those with lower ability from integration in the labour market.

### *The impact of a national minimum wage on poverty*

One of the most specious arguments flouted by the unions and the various pressure groups in defence of the minimum wage is the potential impact it would have on poverty. This probably accounts for their claims which in most cases pitch the minimum well above the market clearing levels for the lowest paying sectors and in some cases even for sectors where low pay is not perceived as being a problem. By banishing low wages, - or establishing a high minimum wage depending on your point of view - it is hoped that household poverty will be reduced. Killing two birds with one stone is indeed a comforting perspective, but not a realistic one.

Information is readily available for researchers interested in calculating the effect of minimum wages on household poverty.<sup>11</sup> In its 1996 pamphlet, the TUC uses official statistics to show how different minimum wages would affect the various household income deciles.<sup>12</sup> One of the conclusions drawn underlines however, the sheer speculation that lies behind their research:

*The evidence presented here suggests a strong link between low pay and household poverty. One should note that these results **may overstate the poverty reducing effects of a minimum wage since we have not included households with no workers, who would clearly not be affected by a minimum wage.** It is also true that we have **ignored any offsetting tax or benefit effects on household income that may arise with higher levels of pay.** However, it is clear that the introduction of a minimum wage **at something like these rates would provide most benefit to workers from the poorest working households.**<sup>13</sup>(emphasis added)*

Apart from the vagueness surrounding some of these sweeping statements, the basic error made here is to confuse pay and income. Although they are closely linked they are still two completely different aspects of any economy. Households suffering from pay induced by low wages would be affected by the introduction of a national minimum if the wage earner managed to retain his employment and if the minimum were set above the original wage. But, should the wage earner be excluded from the labour market because his employer can no longer afford to employ him it is likely that his family will suffer even greater poverty.

A wage which gives access to benefits such as Family Credit or Housing Benefit, free school meals etc., could be more valuable in terms of income than a national minimum which increases earnings but reduces overall disposable income due to higher income tax and/or exclusion from benefits.<sup>14</sup> This is particularly true for household resources which are particularly sensitive to the interaction between tax, benefits and wages.

This rather speculative debate overlooks even so the simple fact that household poverty stems mainly from lack of employment than from low wages. Once again, ample research has been undertaken on the subject and generally the conclusions drawn coincide.<sup>15</sup> A recent study sums up these findings thus: *Many of the two largest demographic groups benefiting from a NMW [National Minimum Wage] - younger workers and females in a couple - are in households with more than one earner, so a NMW leaves the bulk of family poverty untouched.*<sup>16</sup> This last remark is expounded upon in the following way:

*The majority of low income families have no-one in work so a NMW would be of little direct benefit to them. For low income families with someone in work, low pay and many children [sic] contribute roughly equally to the low family income. Unfortunately, as things stand, a NMW would also do little to combat family poverty among those families. Higher income tax and national insurance, coupled with reductions in family credit and housing benefit, mean that net gains in income would be only a very small fraction of each extra £1 earned via the introduction of a NMW.<sup>17</sup>*

In view of this there can be little doubt that the minimum wage is too blunt an instrument to be useful for reducing poverty. Because of this confusion, many minimum wage advocates are barking up the wrong tree which in the long run can only delay implementation.

One way of pitching the national minimum at a workable level would be to define what it is supposed to achieve and who it is supposed to protect. In this way the minimum would be part of a different approach to a “fairer”, more “decent” or even more “just” distribution of income.

### ***Labour’s alternative***

The Labour Party fought the 1992 election promising a minimum wage of £3.40/hour. Their defeat put paid to the introduction of the minimum wage as their political opponents continued dogmatically to deregulate the market. In terms of pure ideology pay bargaining was supposed to reflect the flexibility of the labour market and involve primarily individual relationships between employers and their employees. Pay was to be negotiated according to merit which went against the grain of the more traditional practice of collective bargaining. Whether this was an attempt in the long run to reduce union influence even further remains to be proven but there is little doubt that the British labour market has been substantially freed from outside intervention..

One way of analysing both labour market deregulation and the overall state of employment - or unemployment - in the low paying sectors of British industry, is to look at the situation in the former Wages Council industries. Any improvement in employment in these sectors would be a legitimate step in the right direction if job creation took priority over minimum wage standards. The Low Pay Unit has examined available information and found that not only have wages fallen since abolition but that employment has increased. This second point corresponds exactly to what the free market advocates had predicted.

What overall figures for unemployment do not show however is that there has been a massive increase in part-time employment to the detriment of full-time jobs:

	<b>Full-time 000s</b>	<b>Part-time 000s</b>	<b>Part-time 000s</b>
<b>March 1992-September 1993 (full-time equivalents)</b>	-13.1	+78.2 +31.3	+65.0 +18.2
<b>September 1993-March 1995 (full-time equivalents)</b>	-65.7	+65.9 +26.4	+0.1 -39.3

Source: Low Pay Network, *Priced into Poverty: An Analysis of Pay rates in former Wages Council Industries*, London: Low Pay Unit, 1995, p.16.

Although these figures do not take seasonal adjustment into account they do show quite clearly that employment was more buoyant prior to abolition and that abolition has led to many full-time jobs being transformed into part-time ones.

That employment prospects in these sectors were more promising before abolition must not be taken as implying that minimum wages create employment to the extent described by some pressure groups. The positive influence they do have on employment is legitimate in the sense that employers benefit from some form of wage stability which in turn can prevent wage undercutting and encourage employers to reduce workforce turnover - incidentally another prominent feature in the low paying sectors - by promoting loyalty especially for workers with specific skills acquired within the firm. In general the outlook can be more healthy for both parties. The typical former Wages Council sector employer who in many cases doubles up as accountant and foreman has little time to devote to individual pay bargaining and often welcomes the possibility of being able to dispense with tedious negotiating.<sup>18</sup>

As far as the second conclusion is concerned labour market flexibility has led to a considerable increase in part-time work enabling politicians to present a far more positive assessment of unemployment statistics. The policy of jobs at any price (low pay is better than no pay) appears to have fulfilled its promises.

Here is where New Labour can intervene by making sure, in its overall approach of combining social and economic policy rather than treating the two as completely separate entities, that work pays.<sup>19</sup> Old Labour has a long standing debt towards the low paid and its history of missed opportunities means that New Labour's commitment to focus on a fairer distribution of earnings can quite easily include the introduction of a national minimum wage.<sup>20</sup> It is high time indeed that responsibility for wage protection is acknowledged as being a problem for Parliament and no longer as any sort of political encroachment on union prerogatives.

This is not a defence of selective minimum wage fixing machinery such as the Wages Councils but of one single rate below which no fully-fledged worker whatever his or her particular circumstances is allowed to fall. Although some degree of tolerance should be included to cover young workers, training possibilities and certain categories of workers whose disabilities exclude them from the mainstream labour market, an across the board rate, if not ideal, is at least easy to monitor and enforce.

When it comes to the crunch of deciding on a minimum wage, Labour's Low Pay Commission will take all the aforementioned points into account. If it tries to catch up on lost time by imitating its European neighbours, the shockwaves that this will send through the whole of the pay spectrum will be considerable. If on the other hand it works backwards by deciding how many people should be covered (in most other European countries with a minimum wage the figure stands at about 10% of the workforce) and the sort of wage gap that would be tolerable in order to limit knock-on effects, the rate could then be set accordingly. It goes without saying that the whole process should fully integrate union cooperation in order for strict priority to be given to the minimum wage during further wage negotiations. If this element is overlooked and not dealt with statutorily, there is the chance that differentials obtained by stronger unions would in time compress the minimum wage below an acceptable

decency threshold. This would also be the case in relative terms if the statutory minimum were used as a basis for all pay bargaining.

One way of ensuring initial success lies in pitching the minimum at a low rate so as to minimise its impact on employment yet maximise its future potential. Rates above £4/hour commonly proposed by pressure groups possibly encouraged by European decency threshold targets are far too high and the Labour Party knows this. If, as many employers suggest, “going rates” tended to be in excess of Wages Council fixed minima, then why not chose the average former Council rate adjusted to what the 1996 level would be?

The figure stands at £3.20/hour, perhaps a low benchmark compared with other claims but it is endowed with the essential qualities that would contribute to ensuring the initial success of the national minimum wage. It can accommodate regional variations and its effects on legitimate employment would probably be negligible. In this respect even the Confederation of British Industry which has always been opposed to a minimum wage stated recently that “*it could live with a minimum wage of £3.50*”.<sup>21</sup> Also, protection would be approximately similar to what other countries provide which at a time when European harmonisation is being given top priority, cannot be neglected.

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The European Social Charter states that citizens have a right to a fair rate of pay. Whether the overall aim of promoting minimum wages is to reduce wage undercutting within the boundaries of Europe in order to stabilise competition, or quite simply provide a decent rate of pay on principle, is another debate. Labour has stated quite clearly that it has no intention of systematically undoing what its political opponents took 18 years to achieve but will endeavour to implement a new drive towards more fairness in the distribution of wealth. The market principles to which the Conservatives were so devoted have introduced unacceptable distortions into the way earnings are distributed and the national minimum is just one way in which some of these can be abolished.<sup>22</sup>

At whatever rate it is pitched, the minimum rate will affect the labour market and will have disemployment effects. Yet this seems a fair price to pay if Britain wants to get rid of the sort of employment that is at the root of pittance wages. If it takes responsibility for this, then New Labour will have respected its commitment to labour market flexibility but only up to a certain point: beyond this, it is not a case of job creation or poverty but principle, something that the unfettered market cannot quite embrace.

## NOTES

By household - or family poverty - I mean insufficient income relative to a family's needs. It goes without saying that family size must be taken into account when attempting to calculate needs.

<sup>2</sup> For a full description of the Trades Boards and the Wages Councils see my two articles: "Wages Councils: bilan", *Alizés - Trade Winds*, n°7, January 1994, pp. 67-90 & "Adieu aux Wages Councils", *Revue Française de Civilisation Britannique*, vol. 8, n° 2, juillet 1995, pp.65-79.

<sup>3</sup> In the introduction to *Arguments for a National Minimum Wage*, T.U.C., London: 1996, John MONKS, general secretary of the T.U.C. emphasises "the moral issue which is all too often forgotten because of economic questions and debate".

<sup>4</sup> The Social Contract in the 1970s is an ideal example of how ineffective the trade unions' "declarations of intentions" concerning the low paid were. During the annual pay bargaining rounds, the unions were supposed to avoid claiming the extra percentage that they had agreed should be devoted to improving the situation of low paid workers. Although in some cases this aspect was taken into consideration, generally speaking pay did not improve in the low paying sectors and especially not in those protected by the Wages Councils.

<sup>5</sup> TUC & Labour Party Liaison Committee, *Low pay: Policies and Priorities*, London: TUC and Labour Party, 1986, p.5.

<sup>6</sup> Until the latest election various figures were put forward such as half of mean male manual earnings or half of median male manual rates. The European "decency" threshold of 68% of full-time average earnings is far more ambitious, as is the Low Pay Unit's target of 66% of median male earnings.

<sup>7</sup> "Labour braced for battle over level of minimum wage", *The Guardian*, September 12, 1996.

<sup>8</sup> *Ibid.*

<sup>9</sup> Most economy textbooks provide an elementary description of monopsony. For a reader-friendly and thorough examination of minimum-wage laws including a study of the interaction between monopsony and minimum wages see D. FORREST & S.R. DENNISON, *Low pay or No pay, a Review of the Theory and Practice of Minimum-Wage Laws*, London: The Institute of Economic Affairs, 1983.

<sup>10</sup> The retail, hotel and catering industries account for a vast majority of low paid workers in Great Britain. With all due respect to people who take great pride in working for these industries, cleaning, shelve-stacking or selling for example, are within most people's grasp although accomplishing these tasks day in day out in a cheerful manner is certainly not.

<sup>11</sup> The *British Household Panel Survey*, the *General Household Survey* and the *New Earnings Surveys* are just three examples of official data available.

<sup>12</sup> *Op.cit.* *Arguments for a National Minimum Wage*.

<sup>13</sup> *Ibid.* p. 60.

<sup>14</sup> This is called the poverty trap. For further details see my article in, Patrick BARBER & Timothy WHITTON (eds), *The Dynamics of Time at Work: an Anglo-French Perspective*, London: The Management Centre, 1995, pp.114-123.

<sup>15</sup> See for example HARKNESS, S. & MACHIN, S., "Boosting women's pay", *New Economy*, 1995, pp.220-222 or SUTHERLAND, H., "Social security versus the Minimum Wage", *The New Review*, London: Low pay Unit, September/October, 1995, or SUTHERLAND, H., "Minimum Wage Benefits", *New Economy*, December 1995, pp.214-219.

<sup>16</sup> FERNIE S., & METCALF D., *Low Pay and Minimum Wages: the British Evidence*, Centre for Economic Performance, London School of Economics, September 1996, p. 21. Evidence from SUTHERLAND, H. *op.cit.* is used.

<sup>17</sup> *Ibid.*, p. 22.

<sup>18</sup> In my own personal experience of the Wages Council sectors, many employers applied the "going-rate" which for them was dictated by a curious combination of local market forces, the overall economic climate and haphazard negotiations. Many of them had never heard of the Wages Councils let alone statutory minimum rates and underpayment was in the vast majority of cases a question of ignorance rather than malice. Although Wages Council rates were legally binding, they were only minimums and rates actually paid were often higher. Retail, catering and hotels, clothing manufacturing and hairdressing were the lowest paying Council industries with the highest incidence of underpayment and where minimums were actual rates paid.

<sup>19</sup> See for example Tony Blair's outline of "Labour's Agenda for Social and Economic Advancement", *The Guardian*, November 23, 1996.

<sup>20</sup> The immediate post-war period would have been an ideal opportunity to introduce a national minimum wage but instead the transformation of the Trades Boards into Wages Councils was preferred. The 1970s Social Contract is another obvious example of how Labour "missed the bus".

<sup>21</sup> "Make-up of commission key to setting minimum pay rate", *The Guardian*, May 15, 1997.

<sup>22</sup> The "topping-up" of wages using Family Credit is just one example of the way in which interaction between pay and social benefits can be distorted.

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