



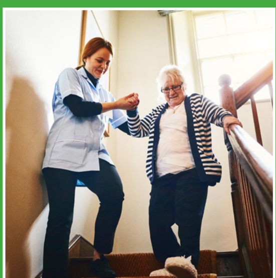

Delivering greater security for the low paid

A collection of essays on the future of the minimum wage

A UNISON publication

Introduction – Christina McAnea

Years of opposition from businesses, politicians and even some in the trade union movement, meant the road to a national minimum wage was a difficult one. But 24 years on since it became law, it's proved all the critics wrong.

The now popular policy has lifted living standards for millions of the lowest paid workers and guaranteed them a yearly wage uplift. And by next year, the rate will reach the target of two thirds of median hourly earnings.

But making progress for low paid workers shouldn't stop there. UNISON, and the unions that merged to form it, has always been at the forefront of the campaign for a national minimum wage, and we will lead the way on where we go next.

Back in the 1970s, collective bargaining couldn't deal with the problem of low pay in public services. Sky-high inflation and failing government pay policy meant that many workers - particularly women and those working part-time - were facing sustained hardship.

Rodney Bickerstaffe, the General Secretary of the National Union of Public Employees (NUPE) and later of UNISON, led the campaign for a legally enforceable minimum rate of pay for the best part of 25 years. And in 1998, the Minimum Wage Act was passed by the newly-elected Labour government. What started with Rodney's discussions with a few people who would listen, snowballed to become one of the most successful policies in British politics.

And now, as we head towards a general election, UNISON is taking the lead in setting out what the next government should do for low paid workers. Although we've made so much progress, many still struggle to get by. The cost-of-living crisis, poor enforcement, age discrimination, volatile working hours and lack of sick pay are some of the issues at play.

Our aim with this document has been to bring together a broad range of authors and organisations with ideas about to make sure the minimum wage is an even more powerful tool to deliver security and decent living standards for the lowest paid.

Many thanks to all our contributors, and to UNISON's campaign fund for offering the practical solutions that can ensure the minimum wage thrives for future generations.

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CHAPTER 1.

It's time to raise the floor on the UK's labour standards, not just pay

Torsten Bell and Nye Cominetti,
Resolution Foundation

2024 will mark the end not just of this Parliament, but also of the current phase of minimum wage uprating. It's when the future of the minimum wage will be decided. So now is a good moment to reflect on its success, and to consider how we can apply the same idea of a rising wage floor to lifting minimum standards in the UK labour market more broadly.[1]

The minimum wage has come a long way

2024 will be an important year for the minimum wage. The Government is set to raise the adult rate minimum wage to at least £11.16,[2] up from £10.42 today, and the adult rate will be extended to apply to 21-22-year-olds for the first time since 2015. At this point the adult minimum wage rate (the 'National Living Wage', NLW) will be equal to two-thirds of median hourly pay – a symbolic milestone because this threshold is widely used as a benchmark for 'low' pay. It will likely also bump the UK a few points up in the international minimum wage rankings. In 2022 the UK's minimum wage was 10th highest out of 31 OECD countries relative to median pay of full-time workers; the 2024 target will see this rise to 7th, and only behind New Zealand when it comes to comparably rich countries.

Importantly, this will happen with broad political support. The minimum wage was introduced by a Labour government to widespread opposition. Now all political parties support the minimum wage – and the recent era of rapid uprating have been driven by successive Conservative governments. Both main parties are likely to make a higher minimum wage part of their manifesto at the next General Election.

In this context it's easy to take the minimum wage for granted. But it's worth reminding ourselves quite how big a difference it's made to low earners. Over the last 20 years, and especially since 2015, pay growth has been heavily concentrated at the bottom of the pay distribution. From 1999 to 2015 hourly pay rose more than twice as fast for the bottom fifth of earners than at the middle of the distribution, and since 2015 more than four times as fast at the bottom as at the middle. By contrast, from 1980 to 1998 – the 18 years before the introduction of the minimum wage – real-terms pay growth was 50 per cent faster at the middle than at the bottom, and more than twice as fast at the top than at the middle. The minimum wage has completely changed whose pay rises fastest in the UK. Someone earning at the 10th percentile in 2022 was 32 per cent better off compared to a scenario where median pay growth in the minimum wage era was unchanged (at 0.7 per cent per year) but where the shape of wage growth had matched that of the pre-minimum wage era (which would have resulted in zero real pay growth at the bottom of the distribution).[3]

These results are worth celebrating – and show why a rising minimum wage should continue to be part of the UK's policy mix. Continuing to raise the 'bite' of the minimum wage (i.e. its level relative to median pay) at its post-2015 pace would give a minimum wage of around £13.12 by 2029 on the OBR's current pay growth forecasts, and will continue to ensure low earners see better wage improvements than those at the middle. (Of course, there are risks and trade-offs to be considered – we come on to these below).

Pay isn't the only thing that matters at work – and on minimum employment conditions, the UK is a long way behind other countries

However, the minimum wage can't continue to be the only way policy makers seek to improve work for low earners. While the UK now has one of the highest minimum wages among developed economies, it is lagging far behind in other areas of employment policy. Pay is far from the only thing that matters at work – so too do security and dignity, to name just two. (The importance of these things barely needs stating – but one among many proof points is found in Arin Dube's work[4], which found that Walmart employees in the US considered being treated with greater dignity to be equally as valuable as a 7 per cent pay rise). It is high time the same energy which has lifted the UK's minimum wage is brought to bear on wider employment conditions too.

There are many examples of the UK's low minimum standards in the labour market – from the two years during which new starters aren't protected from unfair dismissal (which means currently 2.4 million workers in the bottom pay quintile have no such protection), to the low levels of statutory maternity and paternity pay compared to other countries (in the UK statutory maternity pay would replace 27 per cent of earnings over a one-year maternity leave for a woman earning average pay in the private sector, compared to a median replacement rate of 40 per cent across countries, and compared to 14 OECD countries where the replacement rate is over 50 per cent). The UK also sets no minimum levels of advance notice for when workers must be notified of their shifts, and offers workers a below-average number of minimum holiday days – 28, compared to the OECD median of 31.

But arguably the most glaring example of our low standards is the protection offered to workers who become sick. Statutory Sick Pay (SSP) in the UK is just £109.40 per week. This low rate, combined with the three-day waiting period, means a worker off sick for a week would get just £43.76 – just 11 per cent of the weekly wage for someone working full-time on the minimum wage (£390). The replacement rate of equivalent schemes in other countries is significantly higher: across the OECD, the median replacement rate of mandatory sickness benefit (i.e. statutory sick pay or its equivalent in the benefits system) for a four-week sickness absence for a private-sector worker on average pay is six times higher than in the UK (64 per cent, versus 11 per cent in the UK). This is an unacceptably low level of protection.

A new programme of higher minimum employment standards should tackle insecurity – starting with sick pay and control over hours

Besides catching up with our international peers, another reason for raising minimum standards like SSP is that the UK's low standards contribute to (or at least fail to correct) important forms of inequality between high and low earners when it comes to security and dignity at work. That's because as well as earning more, high earners typically enjoy better conditions and stronger entitlements than low earners. And that includes sick pay: more than half (56 per cent) of private-sector employees earning below £20,000 expect to receive only statutory sick pay (SSP) or nothing at all if they have to take a week off work through illness, compared to only a tenth of those earning above £50,000.

The UK should raise to the typical standard across the OECD – SSP should cover two-thirds of workers' earnings, and the number of waiting days should be reduced from three to one. And most glaringly, all workers should be eligible: currently 1.6m workers earning below £123 (the National Insurance lower earnings limit) are not covered at all.

Another example of how low earners bear the brunt of labour market insecurity – and where higher minimum standards would also help – relates to control over hours of work. Volatile hours can be problematic for anyone – it makes it harder to manage life around work. But when workers are paid hourly, volatile hours also means volatile income. Low earners (those earning below two-thirds of median hourly pay) are much more likely than higher earners to experience this: they are seven times more likely to be on a zero-hours contract, and three times more likely to be paid hourly and experience volatile hours (a broader category than just those on a zero-hours contract). As a result of these experiences, a third of workers in the bottom hourly pay quintile say they are anxious about unexpected changes in their hours of work – around three times the rate of workers in the top pay quintile.

A better minimum standard here would be to give workers a right to a contract with guaranteed hours where this reflects their normal work pattern, and give all workers a right to compensation when shifts are cancelled at late notice.

We can raise pay and standards further by exploring new labour market institutions

Higher universal labour market standards could do a lot to improve the quality of work in the UK. But they can't do everything. Firstly, because some things that make work 'good' can't readily be regulated for – such as being treated well by your manager, or your work allowing you to go home to deal with a family emergency (four-fifths of the highest earners would be paid as normal in this situation, more than half of workers earning below £20,000 in the private sector wouldn't). Secondly, because national regulation alone is not well-suited to solve some problems – those that are highly sector-specific, for example – which require more bespoke solutions to supplement economy-wide policies. And thirdly, because many workers already have pay, entitlements and job conditions well above the minimum allowed – the 'floor' isn't binding for these workers. The UK's labour market challenges go further than just raising standards at the bottom (for example, the stagnating median wages that have driven widening inequality between the middle and top of the pay distribution).

This tells us that additional strategies are also needed to deliver better pay and conditions in the UK labour market. Along with cross-cutting efforts to raise workers' bargaining power (such as maintaining high employment so that workers can easily switch jobs if they are not happy with their pay and conditions, and levelling the playing field for trade unions, especially when it comes to their ability to organise in new workplaces), the UK should also engage with measured institutional innovation at the sectoral level. In doing so, we could learn from countries like New Zealand, which since 2022 has made it possible for Fair Pay Agreements[5] to be triggered in which workers and businesses negotiate to set minimum terms for a whole industry or occupation (those given the go-ahead to start negotiations so far include bus drivers, security guards and the hospitality industry), and Ireland, whose Joint Labour Committees[6] have drawn up agreements on bespoke employment standards for sectors like childcare and contract cleaning.

Higher labour standards come with trade-offs – these need to be managed carefully

The case for raising minimum employment standards in the UK is strong. But we need to be mindful that this comes with trade-offs. This has always been built into the minimum wage process – the Low Pay Commission watches carefully for any negative effects of the minimum wage on employment and hours, and there is a vast economic literature attempting to do the same. So far the consensus is that in the UK the minimum wage has delivered a large positive boost to workers' pay while negative impacts on employment in the UK have been minimal.

But at some high enough level of the minimum wage the pay-employment trade-off will become a real one, and policy makers should start thinking harder now about what an acceptable trade-off would be.

These questions would become more pressing if a higher minimum wage was coupled with a broader agenda of higher labour market standards. Raising the minimum wage raises labour costs for employers, and improving statutory sick pay and giving workers more control over hours would push in the same direction. We should acknowledge that changing the cost of (some) labour will have knock-on effects on consumption and production – it may push UK firms towards adopting higher productivity business models, but it may also create disruption and difficulty in the firms and industries where low-wage work is concentrated. On the other hand, the distributional impacts of raising labour standards are more obviously positive – low-income households work in low-paid jobs in large numbers, but consume relatively little of the goods and services produced by low-wage work (such as hospitality) – meaning they would feel the direct benefits of higher pay and standards more than they would higher prices.

A new policy agenda for improving low-paid work

In 2024, politicians of many stripes will make a higher minimum wage part of their election platforms. This is welcome – and will mean low earners continue to enjoy stronger pay growth than the rest of the workforce, bearing down on inequality. But a higher minimum wage alone is not enough. Low earners deserve more of the security and dignity that higher earners take for granted – and higher minimum standards beyond pay can deliver that.

1 The ideas discussed in this article are covered in greater depth in our 'Low Pay Britain' report from earlier this year.

2 'At least' because wage growth has accelerated since March when the LPC published this 'central estimate' of the 2024 minimum wage. The minimum wage is set relative to median pay, so faster increases in median pay means a higher minimum wage uprating. Low Pay Commission, The National Minimum Wage in 2023, March 2023

3 For this thought experiment the shape of the 1980-1998 pay distribution was applied but shifted down in line with slower overall pay growth in the later periods.

4 Power and dignity in the low wage labor market: theory and evidence from Wal-mart workers, Arin Dube, Suresh Naidu and Adam D Reich, 2022

5 https://www.employment.govt.nz/starting-employment/unions-and-bargaining/fair-pay-agreements/overview-of-fair-pay-agreements/

6 https://www.citizensinformation.ie/en/employment/employment-rights-and-conditions/industrial-relations-and-trade-unions/joint-labour-committees/

CHAPTER 2.

Fair Pay Agreements and the future of the minimum wage

A sectoral approach to job security and better pay Sara Gorton, National Secretary for Health, UNISON

The central argument of this chapter is that whilst minimum wage policy has made great strides in tackling low hourly pay, now is the time to refresh and broaden its mission. The goal of policy should be to sit the minimum wage within a wider framework of complimentary labour market interventions to provide greater financial and job security for the lowest paid. It will be argued that this can be delivered through: i) the introduction of sector level bargaining and Fair Pay Agreements, that will enable negotiated solutions to the need for greater job security, including increased contractual hours and certainty about the working week and ii) the minimum wage increasing in line with the cost of living and becoming, in effect, a living wage. The chapter begins with a short overview of where the current minimum wage is succeeding and where it's still falling short.

A lot done a lot more still to do

It is widely acknowledged that the minimum wage has had a transformative effect on the prevalence of low hourly pay in the UK. When the minimum wage was introduced in 1999 extreme low pay, at half the median, affected 7% of all workers. By 2006 it had fallen to just above 2%.[1] After the government of the day re-badged the minimum wage as the National Living Wage (NLW) in 2015 and introduced the formula based target, incidences of low pay using the headline measure of two thirds of median, also fell significantly. Since 2015 the number of workers on low hourly pay has fallen by over a half, from 21% to 9%. By 2024, the government's target date for the NLW reaching two thirds of median pay, low hourly pay on the standard measure will, in theory at least, have been eradicated in the UK.[2]

But whilst this is welcome progress, it's clear that serious problems remain for many working people. Those on zero hours, part time or temporary contracts, or who are employed by smaller firms, are far more likely to still be on a lower hourly rate.[3] Additionally, despite higher hourly rates, significant numbers are still trapped on low weekly pay. Annual Survey of Hours and Earnings data shows that despite the significant fall in the number earning below two thirds of median hourly pay, those earning below two thirds of average weekly pay remains at 24.5% - practically one in four of all workers.[4]

As such, we can see that an ongoing challenge for many experiencing low pay is closely intertwined with the prevalence of different forms of insecure work.

Insecure work

In their insecure work index the Work Foundation estimate that about 6.2 million workers experience a combination of one or more of the following:

- contractual insecurity (e.g. temporary, zero hours, part-time – especially involuntary part-time)
- financial insecurity (e.g. low pay, variable hours, underemployment, wanting more hours etc.)
- insufficient worker rights (e.g. employment status, access to tenure and contribution based support such as sick pay and redundancy pay)[5]

Research carried out by the Work Foundation for UNISON, supported by the union's Campaign Fund, shows that contrary to the arguments sometimes heard that workers relish the so called 'freedom' that the flexible labour market delivers, the reason that many people take insecure work is because, in many cases, this is all that's available to them.[6] Four in ten insecure workers said they were only in their current job due to the availability of work in their area, inadequate transport links to alternative better paying workplaces or lack of available and affordable childcare.

Younger and older workers, those on low-incomes and people in part-time work were all significantly more likely to feel they had more limited choices.

Just under half of all workers in insecure jobs (46%) said they would find another job if limiting factors were no longer impacting them.

Further research by UNISON highlights the way in which insecure work remains a huge problem in the social care sector. Zero hours contracts remain endemic, as does the widespread experience of workers not getting the hours they want and need.

UNISON's Care Worker Survey, conducted during February and March 2023, found that:

- 77% of staff said that they would take more hours if they were available;

- 73% of staff said that they would prefer a typical full-time working week of approximately 37 hours if it were available.
- The typical number of hours worked was 35 hours a week, though 9% of staff had a typical working week of 16 hours or less;
- Contracted hours varied from week to week for three quarters of staff;
- Around 7% of staff had experienced a week in which they were offered no work and a quarter had experienced having to get by on 10 hours or less;

In comments on their working hours, the dominant issue was the stress and worry caused by inadequate hours, leaving workers unable to pay bills on time. Many respondents referred to the high fixed costs of rent and energy bills leaving them to juggle the frequently inadequate remaining income on food for them and their families.

To make matters worse there is evidence to suggest that some employers deliberately impose hours that do not allow workers to achieve a regular reasonable weekly income, regardless of the hourly rate. Analysis by UNISON in its submission to the Low Pay Commission suggests that some social care some employers had responded to the introduction of the NLW by intensifying the use of zero hours contracts.

Although these issues are of great concern to UNISON members in social care, the union recognises that they go way beyond its own membership.

A Learning Work Institute report on the future of the minimum wage uncovered through an employer survey that 'one in nine (11%) of businesses said they had made greater use of temporary and flexible contracts in order to respond to the introduction of the NLW.'[7]

Figures from the ONS covering the period April to June 2023 suggest that close to 1.2m workers are now on zero hours contracts. That's 3.65% of the workforce – the highest it's ever been.

Agriculture, hospitality, food and accommodation, retail and arts and leisure are also sectors in which insecurity is widespread – as is platform work and bogus self-employment covered elsewhere in this booklet (see chapter seven on the gig economy and chapter 10, which covers some of the issues around self-employment).

Giving workers bargaining power to provide financial and job security

Banning zero hours contracts and requiring employers to offer workers a contract for the hours that they work would clearly help to address the situation outlined above. Better provision of affordable childcare, rights to flexible working patterns that facilitate the caring responsibilities of the worker rather than just the employer and more affordable transport to workplaces will over time boost the number of choices open to workers, enabling them to look for better work.

But, in addition, it's also important to recognise and encourage the role that collective bargaining has to play in giving workers and their trade unions the power to negotiate pay and terms and conditions, addressing the characteristics of insecure work described above.

There remains clear international and UK evidence that collective bargaining increases financial and job and security.[8] In this context ideas to reinvigorate collective bargaining through sector level arrangements, in which workers and employers come together to negotiate enforceable fair pay agreements in sectors in which low pay and insecure work is rife has huge potential to improve the quality of work and make the minimum wage more effective – not least through addressing contractual insecurity and regularising hours of work..

In the New Deal for Working People the Labour Party make the case that sectoral collective bargaining would help reverse the decades-long decline in collective bargaining coverage. Under their plan, worker and employer representatives would be brought together to negotiate Fair Pay Agreements that establish minimum terms and conditions, binding on all employers and workers in the sector. These would include, but not be limited to, working time, pay and pensions, holidays, training, work organisation, diversity and inclusion, health and safety, and the deployment of new technologies.

These initial proposals have been followed up with a commitment, agreed at the Party's conference in 2023 that a future Labour government would introduce an initial Fair Pay Agreement in adult social care. Following its introduction, an assessment would be undertaken into the extent to which Fair Pay Agreements could benefit other sectors and tackle labour market challenges.

As this policy is developed further it is important that the following four factors are kept in mind.

1. There will have to be a reckoning with employers about working hours and what their responsibilities are in terms of financial and job/contractual security for their workers. In the case of social care, future workloads are largely predictable. Whilst some care workers want to work part time, surveys show a significant number currently experiencing erratic and/or too

few hours want to work a full week. What's more, the work is there for them to do. There is no case for variability of hours purely on employers terms. The Fair Pay Agreement must address the need for ambitious job redesign and a new work culture underpinned by professionalisation of the workforce.

2. Whilst tackling insecure work in the social care sector will come with a price tag, it must also be acknowledged that this is fundamental to addressing the recruitment and retention crisis in the sector and thus improving the quality of care.

3. The minimum wage will still have a major part to play as Fair Pay Agreements are rolled out. This will be essential not just for those not covered by Fair Pay Agreements, but also as a wage benchmark, to be bettered in negotiations between workers and employers in future sectoral level collective bargaining. Along with other unions, UNISON backs the campaign ask for £15 an hour. But whilst this bold, eye-catching figure might be effective at highlighting the UK's pay crisis, the Low Pay Commission clearly performs an important role and should continue to recommend minimum wage rates. There is a strong case for the Commission being given a fresh remit – being asked to make recommendations on how the rate can meet real living costs, becoming, in effect, a real living wage.

4. The introduction and subsequent assessment of the initial Fair Pay Agreement in adult social care should be conducted as speedily as possible. Whilst it's important that the process is thorough and lessons are learned about applicability to other sectors, rolling out sectoral level collective bargaining and Fair Pay Agreements more widely should be a priority. This will be a good thing in itself – but also a central component of any serious strategy for boosting growth and tackling the UK's interlinked productivity and pay crises.

As others also point in this publication, we need a programmatic approach to delivering financial and job security. There is no single silver bullet. Fair Pay Agreements also need to be underpinned by a ban on zero hours contracts, improved worker and trade union rights and effective labour market regulation enforcement. What's also clear is that the minimum wage and the Low Pay Commission remain vital to any such programme for the future.

[1] Low Pay Britain, Resolution Foundation, 2023

[2] Ibid

[3] UNISON submission to Low Pay Commission 2023

[4] Ibid

[5] The UK Insecure Work Index: Two Decades of Insecurity, Rebecca Florisson, Work Foundation, 2022

[6] Limiting Choices: why people risk insecure work, Dr Olivia Gable, Rebecca Florisson, Work Foundation 2023

[7] The Future of the Minimum Wage, Becca Gooch, Joe Dromey, Gail Irvine and Douglas White, Learning and Work Institute, February 2021

[8] Trade union membership statistical bulletin, UK 1995-2022, May 2023 and Union workers had more job security during the pandemic but unionization remains historically low, Economic Policy Institute 2021

CHAPTER 3.

The route to £15 an hour and better pay for everyone

Kate Bell, Assistant General Secretary, TUC

The success of the national minimum wage in tackling low pay should give us confidence that we can go further to deliver better pay and living standards for everyone. That's why the TUC is calling for a £15 national minimum wage, and an expansion of collective bargaining, including sectoral bargaining, to raise pay for everyone.

The success of the national minimum wage

Since its introduction by a Labour government in 1999, the National Minimum Wage has proved its worth as a highly effective tool for raising wages, and now enjoys cross party support. But it's worth noting that in the run up to the 1997 election it met with fierce opposition from business and right-wing groups. In 1991, then Employment Secretary Michael Howard described Labour's proposals for a minimum wage as 'their most damaging policy', and claimed it would cost three-quarters of a million jobs.[1] The CBI was arguing in 1995 that "even a low minimum wage would reduce job opportunities and create major problems for wage structures in a wide range of companies"[2] and Conservative MPs voted against the national minimum wage legislation when it was introduced.

Fast forward twenty years, and the evidence is clear: as trade unions always argued, companies can afford to pay their lowest paid workers more, without cutting jobs. The Low Pay Commission found that "Since 1999, hourly pay has increased the fastest for the lowest paid, reversing the previous norm where the lowest paid saw slower-than-average earnings growth" and that between 1999 and 2018, workers had earned a total of £60bn more than they would have in the absence of a national wage floor.[3] A review of the international evidence by Professor Arin Dube, a leading minimum wage expert, showed that this had been achieved without costing jobs, finding evidence from the UK and other developed countries showed "a very muted effect of minimum wages on employment, while significantly increasing the earnings of low paid workers."[4]

Minimum wages have also proven a valuable tool in addressing gender and race pay inequality. We know that 59 per cent of women employees are paid less than £15 per hour, compared to 47 per cent of men.[5] The minimum wage covers more workers from Bangladeshi (9.4 per cent) and Pakistani (9.0 per cent) backgrounds than white workers (8.2 per cent)[6] meaning that when minimum wages rise, it's women and Black workers who benefit most.

Conservative politicians are now keen to ride on this success: George Osborne as Chancellor set a target in 2015 for the national minimum wage (rechristened the national living wage) to reach 60 per cent of median earnings by 2020, and this was updated by then Chancellor Philip Hammond to a target of two thirds of median earnings by 2024. The establishment of the national minimum wage as a key part of UK policy making now seems secure, supported by one of the country's few social partnership institutions, the Low Pay Commission, a tripartite body bringing workers, unions, and independent experts together to debate and negotiate a recommendation for the wage level each year.

Pushing for higher minimum wages

While the national minimum wage is undoubtedly a success story, there is a still a long way to go before unacceptably low levels of pay are eliminated from the UK economy. Sharp rises in the cost of essentials after years of stagnating pay, have pushed low paid workers to the brink – and 12 per cent of workers are still paid below the real living wage, which takes into account the cost of essentials.[7] We know that ambitious minimum wage policies work – and that they are needed. That's why the TUC is arguing for a £15 minimum wage, and a new target for the Low Pay Commission to ensure the minimum wage reaches 75 per cent of median wages.

We believe that a £15 minimum wage is the minimum workers deserve, and should be implemented immediately. But the advantage of marrying a cash figure with a clear target for minimum wages as a proportion of average pay is that it ensures that the lowest paid can't be left behind by wage growth that benefits the middle. Wages need to grow on average across the economy to spur strong minimum wage growth, and employers have a clear steer to prioritise the lowest-paid when it comes to pay setting. Some simple projections based on decent wage growth and a higher target for minimum wages show that £15 could be swiftly reached even if not immediately implemented in line with our demand. Wage growth of 5 per cent a year (slightly above the average between 1999 and 2007 of 3.8 per cent) along with a target for minimum wages to reach 75 per cent of the median would deliver a £15 minimum wage by 2028. With wage growth of 6 per cent and a 75 per cent target, a £15 minimum wage would be delivered by 2027.[8]

These rises are faster, and intended to be faster, than the pace of change seen in the last twenty years of minimum wage policy in the UK. But even during this period there have been significant increases in the 'bite' of the minimum wage, with it rising nearly twenty percentage points from 47 per cent of median wages in 1999, to around 65 per cent today. Any concerns about a faster pace of increase should be allayed by the Low Pay Commission retaining the power to vary the path of the minimum wage to its target, responding to the state of the economy, and any evidence of negative effects of the policy.

A wider strategy for higher pay

The minimum wage, backed by an ambitious target, offers a clear route to raising the wages of the lowest paid right across the economy. But it must be accompanied by a broader strategy for better pay for everyone, with collective bargaining at its heart.

Over the last decade, international institutions have lined up to stress the importance of trade unions and collective bargaining in tackling wage inequality. In 2015 the International Monetary Fund concluded that higher wage inequality had been driven by lower unionisation, finding that "the decline in unionization appears to be a key contributor to the rise of top income shares".[9] In 2019, the OECD's flagship report on collective bargaining found that countries with stronger bargaining arrangements, particularly sectoral bargaining, had lower wage inequality, and concluded that "Whether considering issues of wage distribution, job quality, workplace adaptation to the use of new technologies, or support for workers who lose their jobs following shifts in industries, collective bargaining and workers' voice arrangements remain unique tools enabling governments and social partners to find tailored and fair solutions.[10]

So a broad-based wage strategy must have a strategy to revamp trade union membership and collective bargaining. That means giving unions access to workplaces to tell workers about the benefits of joining a trade union. It means lowering the threshold for unions to be able to negotiate recognition at company level from 10 per cent of the workforce to 2 per cent (in line with information and consultation thresholds) – and tackling union-busting techniques like those seen at Amazon. It means simplifying the process for expanding union recognition across a company – so that where unions have won recognition in one part of a business they can scale it up to other bargaining units without having to go through the whole recognition process again. And it means repealing anti-trade union legislation, including the minimum services act and 2016 trade union act, that seeks to curb workers' bargaining power.[11]

But to move the dial on wages in the UK we need these strengthened rights to bargain at company level to be accompanied by new rights to bargain across whole sectors of the economy. This 'sectoral' level bargaining has been shown by the OECD to be the most effective means to tackle wage inequality, setting common standards across industries, and preventing a race to the bottom. The Labour Party have committed to put in place sectoral bargaining through 'fair pay agreements', starting in social care. This should be seen as a key plank in any mission to drive up pay, enabling the lowest rates of pay to be set above the minimum wage in industries where unions can show it is affordable, and allowing discussion of pay rates and progression routes above the minimum wage. Sectoral bargaining can also create space to discuss key non-wage elements of work, including training, working time, health and safety and equality, countering any impression that higher wages must be achieved at the expense of better standards elsewhere.

The birth of the minimum wage is a reminder that changes which boost workers' power and wages will always face opposition. But its success should give us confidence that change is possible. A higher minimum wage, a revival of collective bargaining at company level, and new wage negotiations across whole sectors must be at the heart of the next government's strategy for pay.

1 House of Commons Library (2014) The National Minimum Wage: historical background at https://commonslibrary.parliament.uk/research-briefings/sn06897/

2 See Institute for Government (2011) The introduction of the national minimum wage (1998) at https://www.instituteforgovernment.org.uk/event/policy-reunion-national-minimum-wage

3 Low Pay Commission (2019) 20 years of the National Minimum Wage at https://www.gov.uk/government/publications/20-years-of-the-national-minimum-wage

4 Arindrajit Dube (2019) Impacts of minimum wages: review of the international evidence at https://www.gov.uk/government/publications/impacts-of-minimum-wages-review-of-the-international-evidence

5 ONS (2023 Q1) Labour Force Survey

6 LPC (2022) Low Pay Commission Report 2022 https://www.gov.uk/government/publications/low-pay-commission-report-2022

7 Living Wage Foundation (2022) Employee jobs below the real living wage 2022 at https://www.livingwage.org.uk/employee-jobs-below-real-living-wage-2022

8 TUC calculations based on projecting median and minimum wage growth forward from the Low Pay Commission's central estimates for 2024 wages.

9 Florence Jaumotte and Carolina Osorio Buitron 'Power from the People' FINANCE & DEVELOPMENT, March 2015, Vol. 52, No. 1 at https://www.imf.org/external/pubs/ft/fandd/2015/03/jaumotte.htm

10 OECD (2019) 'Negotiating our way up: collective bargaining in a changing world of work' at https://www.oecd.org/employment/negotiating-our-way-up-1fd2da34-en.htm

11 These proposals are set out in greater detail in TUC (2019) A stronger voice for workers at https://www.tuc.org.uk/research-analysis/reports/stronger-voice-workers

CHAPTER 4.

Lessons from the Implementation of the National Minimum Wage

David Coats, Work Matters Consulting

The National Minimum Wage is so widely accepted today that it is easy to forget the policy was, in the early to middle 1990s, hugely controversial and vigorously contested. The purpose of this essay is to explain that remarkable turn of events and to draw out the implications for the development of a strategy to eliminate (or at least reduce further) low pay and poor employment practice at the rougher end of the British labour market. Three general lessons might be drawn from the process of implementing the NMW; first, careful preparation of the policy in opposition; second, the importance of caution in implementation, with some level of experimentation and learning by doing; and, third, the importance of social partner involvement in fixing the rate and generating the apparently robust consensus that underpins the NMW today. Some attention is also given to the future trajectory of the NMW and the importance of new machinery at sectoral level to raise labour standards and productivity in low wage industries.

The importance of careful preparation

In its 1992 general election manifesto the Labour Party proposed to introduce the NMW at the level of half male median earnings, an approach endorsed by the TUC. At that time the UK still had some limited wage fixing in low paying industries through the wages councils that established legally enforceable minimum rates[1]. All wages councils' orders fell below the half male median formula, meaning that the UK would move, almost overnight, from having an unstable and patchy wage floor to the most generous and extensive minimum wage regime in the developed world. While the principle of the NMW was popular, the course of the campaign proved that the approach generated significant political risks. Conservative attacks focused on the supposed destructive effects of minimum wages, with projected job loss figures in the range of 500,000 to 2 million. While not entirely credible, the Labour Party found it challenging to rebut these claims. A policy that was supposed to offer a positive prospectus to the electorate became a political albatross that, along with the Conservative assault on the tax and spending proposals, cemented Labour's (generally undeserved) reputation for economic policy irresponsibility. It is worth recalling that, at this time, most employers and their representative organisations were opposed to the NMW and endorsed the Conservative argument about job losses.

By 1995 Labour in opposition had begun to adopt a different approach, with the principle of the NMW established as an important commitment but with the precise level of the NMW to be fixed following advice from a Low Pay Commission (LPC) after a general election victory. A great deal of work, led by Ian McCartney MP, took place between 1995-97, preparing the detail of NMW implementation including the national nature of the regime, the treatment of young workers, the constitution of the LPC and the system of enforcement[2]. When McCartney crossed the threshold of the Department of Trade and Industry in 1997, as a newly minted minister of state, he presented a very clear and detailed brief to civil servants, a set of proposals which had, at every stage in the preparatory process, been endorsed by Tony Blair and the shadow cabinet.

Throughout the early 1990s there was a gradual evolution in the assessment by academic economists of the employment effects of minimum wages. Hitherto, the weight of expert opinion suggested that any statutory wage floor would have negative effects on employment, even if those effects were small. In 1995, however, David Card and Alan Krueger published Myth and Measurement: The New Economics of the Minimum Wage, a careful study of state and federal minimum wages in the USA. Not only could they detect no negative employment effects, but also found that robust minimum wages could increase employment (albeit at the margin) by encouraging workers to accept jobs that would have been rejected at lower rates of pay. A consensus began to develop across the economics profession that, in the words of Professor Richard Freeman, "the employment effects of minimum wages centre around zero". Of course, this does not mean that a statutory wage floor can never have an adverse effect on employment, but that actual existing minimum wages appeared to have no such effects. This research had a major impact on the climate of opinion and made it difficult, if not impossible, for opponents of the NMW to produce exotic predictions about job losses.

In parallel with Labour's policy development process the TUC was modifying its own position, embracing the commitment to the LPC. Papers were commissioned from leading academic experts on: employment effects, the consequences for the wage structure of the UK, the impact on gender pay inequality and the implications for collective bargaining. Far from being a technical exercise, the research programme informed the TUC's campaigning, marshalling the arguments for a statutory wage floor and then linking the scholarly analysis to practical examples of what it meant to be a low paid worker. While the TUC and the Labour Party were not quite in lock step, they were marching in the same direction, with both demonstrating a seriousness of purpose that had been absent in the period before the 1992 general election. This extensive preparatory work proved equally useful in drafting the TUC's first submission to the LPC, which argued that the appropriate introductory level for the NMW should be the highest of the pre-1993 wages councils' rates increased in line with inflation – a figure of "somewhat more than £4.00 an hour".

Caution, experimentation, learning by doing

After the 1997 election the burden of delivering the NMW fell principally on the LPC, the most successful social partnership institution established by the Blair and Brown governments. The initial policy brief prepared by Ian McCartney proposed a Commission of up to fifteen members, which was designed to accommodate a range of trade union and employer interests. Once in government, however, Labour chose a smaller LPC of nine members – three employer representatives, three trade unionists, two independent experts and the chair, Sir George Bain. A deliberate decision was taken not to appoint chief executives of large businesses or general secretaries of major trade unions, in the belief that these more senior individuals would then be free to express their views in public, which helped to lower the temperature of the environment in which the LPC was working and contributed to a depoliticisation of the NMW as the process unfolded.

Very little has changed in the LPC's operational model since this early period. Close examination of the official data is supplemented by written submissions from stakeholders, formal oral evidence sessions and a programme of regional visits enabling commissioners to "meet the data" by engaging with employers, unions and low paid workers. The LPC's approach in the first two reports was cautious, principally because nobody was certain about the likely impact of the NMW. Nonetheless, the LPC did become rather more ambitious in the early 2000s, recommending increases outstripping the rise in average earnings. Over time, as George

Bain and his successors intended, the NMW began to bite harder on the labour market with no apparent adverse effects on employment. Nonetheless, it is important to emphasise that the LPC was probing and testing the limits of the NMW, reviewing the impact of previous recommendations and considering the scope for more ambition in the future. There was nothing formulaic or routine about the model.

While this may sound like an empirical or technocratic approach, the determination of the rate was, in reality, a fraught and occasionally ill-tempered negotiation that more closely resembled collective bargaining than a quest for the "right" level for the NMW[3]. Of course, there is a case to be made that the NMW could have been higher during this period and little doubt that employer attitudes imposed a brake on progress, but the presence of employers at every stage in the process meant that opposition to both the principle and practical implementation of the NMW was increasingly muted.

Nor was the LPC unwilling to challenge the government. The first three reports all recommended that the full rate of the NMW should be paid at the age of 21. HM Treasury from the outset had suggested that the full rate should be payable at the age of 24 and a compromise was reached on the age of 22 with graduated rates for 18-21 year olds and apprentices. A minimum wage for 16-17 year olds was introduced following the LPC's 2004 report. Of course, the Treasury can play a long game and it is at least arguable that their position has now prevailed following the introduction in 2016 of the minimum wage supplement for those over the age of 24 (now 23) – the so-called National Living Wage (NLW) (discussed further below).

Even though the LPC is now seen to be a permanent (and successful) institution, in 1997 this outcome was by no means guaranteed. Established as an ad hoc advisory panel, with no statutory status, some ministers took the view that the LPC should produce no more than one report and disappear from the scene, with future increases in the NMW being determined by the Chancellor of the Exchequer and announced in the budget. A series of lively ministerial conversations took place, with the LPC's statutory status finally confirmed in the National Minimum Wage Act 1998. Politicians, however, have found it difficult to treat the fixing of the NMW as an entirely non-political exercise and efforts to give clear instructions to the LPC have intensified in recent years. Ministers, inevitably perhaps, are keen to take the credit for improvements in the hourly earnings of the lowest paid.

Building consensus

An absence of negative employment effects, confirmed by the LPC's authoritative research, had a decisive impact on the political response to the NMW, with the Conservative Party moving from outright opposition, to qualified support, to enthusiastic endorsement. Arguably, this volte face would have proved impossible had the level of the NMW been exclusively determined by ministerial decision. In the USA, for example, where an increase in the federal minimum requires the approval of both houses of Congress, minimum wages remain a point of contention between Republicans (generally against any increases) and Democrats (generally in favour of regular upratings). As a result increases are episodic and the federal minimum has been stuck at $7.25 since 2009. The contrast with the UK is obvious and the role played by the LPC in keeping the labour market impact of the NMW under regular review should not be underestimated. Similarly, NMW increases are secured through regulations laid by ministers and approved by parliament; there is no lengthy debate and the principle is rarely questioned – backbenchers are reluctant to challenge the LPC's recommendations.

A natural conclusion is that the practice of social partnership has cemented the NMW as an uncontroversial feature of labour market regulation. Involving union and employer representatives in an evidence based negotiation has ensured that, when recommendations are made, while some trade unions and employers may be unhappy with the outcome, the principle that there should be a wage floor is not in question. Once again, this is a tribute to the effectiveness of the careful preparation of the 1995-97 period; designing durable institutions takes real effort and a willingness to confront vested interests. Had a purely formulaic approach been adopted the outcome could have been very different.

Recent developments

The role of the LPC has been modified in recent years, with the Chancellor specifying a target level to be achieved over a period of years. George Osborne set this course by setting the goal of 60% of median earnings by 2020, with a more ambitious target of two-thirds of the median to be secured by 2024. Arguably this has constrained the discretion of the LPC, establishing that the task is to identify the path to a higher level or explain why progress will be slower. No doubt H M Treasury were influenced by the constrained discretion model that guides the Monetary Policy Committee (MPC) of the Bank of England in setting interest rates; the MPC is supposed to keep inflation at close to 2%, with the governor of the Bank writing to the Chancellor to explain the additional action to be taken if inflation is either 1% above or below the target. The important difference, of course, is that before the introduction of the NLW in 2016, fixing the NMW was a negotiation between the social partners, whereas today the LPC is directed to deliver a politically determined target. It is at least arguable that, over time, the consensus supporting the NMW might be eroded as employers struggle to cope with large increases in difficult economic circumstances. The integrity of the social partnership principle has been eroded.

Nonetheless, this politically directed approach has dramatically reduced the level of reported low pay in the UK, indeed, if the two thirds median target is met in 2024 then no worker over the age of 23 will be low paid on the international definition. For most of the period from 1999 around one in five workers in the UK fell into the low pay category but since 2018 that level has halved with fewer than one in ten (9%) now earning less than two-thirds of the median. From one standpoint the achievement is remarkable, but the speed of the change suggests that the full consequences have yet to materialise. There has been no apparent negative impact on employment, but there may have been some erosion of conditions at the margins, with workers finding that they no longer have access to some of the flexibilities that make low wage work tolerable. Moreover, many low paid workers will be in receipt of in-work benefits and increases in wages may be reflected in a commensurate reduction in universal credit, which means that even though hourly rates of pay have risen, household incomes remain stagnant. To this extent the NMW is entering uncharted territory and the future is fraught with uncertainty.

The future

This brief account may suggest that the NMW has been an unqualified success and a narrow understanding would endorse that conclusion. But the NMW is a somewhat blunt instrument and it can only ever be, in George Bain's words "a Plimsoll Line for labour", a level below which no worker can fall. To that extent, minimum wage fixing is not and cannot be a comprehensive low pay strategy, which requires considerably more subtlety and sophistication. Moreover, the use of metrics like "two-thirds median earnings" may tell us something about hourly earnings but they tell us little about whether a worker earning at that level or slightly above possesses the resources and capabilities they need for full social participation. Workers may still experience unsocial hours, a high level of uncertainty about working time and the multifarious forms of bad management or poor employment practice that characterise much employment at the rougher end of the UK's labour market.

One option considered and never developed by Ian McCartney was the creation of social partnership councils in low wage industries to supplement the NMW. These institutions would have been analogous to the wages councils (with trade union, employer and expert members), fixing rates above the level of the NMW, setting other conditions of employment, making recommendations about training and skills development and considering how routes for progression and higher wages could be secured in these industries. There was a recognition that decent jobs and decent pay depended on productivity growth; the goal was clear, to raise the standards in the UK's poorest performing sectors. At the time it was thought that such an initiative was too ambitious given the difficulty of implementing the NMW and the level of employer opposition. Nonetheless, a seed was planted that bore fruit in Labour's 2005 general election manifesto, which contained a commitment to the establishment of sector forums in low wage industries. Once again, however, little progress was made, principally because the government had other priorities, the trade unions were not entirely enthusiastic and the financial crisis of 2008-2010 swept more ambitious policies off the board.

Today, however, the case for action at sectoral level is stronger than in 1997. If the NMW (or at least the NLW) has caused low pay strictly defined to disappear from the UK economy it simply is not sufficient to say, "job done, we can now move on". Even if the LPC's task in the future is simply to maintain the level of the NMW (or NLW) at two thirds of the median there is ample scope for more extensive interventions. For example, the LPC's terms of reference could be extended so that it becomes a Low Income Commission, reviewing the scene at the bottom of the labour market, identifying why workers are low paid (albeit with hourly earnings at or slightly above the international definition), what this means for the real lives of low income households and what steps might be taken to ensure that low wage work becomes decent work. In other words the LPC would investigate causes, consequences and cures. While the NMW may be a perfect example of successful policy implementation it has proved to be an insufficient response to some deep structural weaknesses in the labour market. That partial success should be celebrated, but the challenge for the future is to entrench the principle that all citizens have a right to decent work, no matter what their level of hourly pay.

[1] The wages councils were abolished by the Trade Union Reform and Employment Rights Act 1993. There was no wage floor of any kind in the UK between 1993-99 when the NMW became effective.

[2] Full disclosure: I served on McCartney's implementation group as the TUC official responsible for minimum wage policy.

[3] Professor William Brown, a member of the original LPC, described the NMW as "the best informed and biggest collective agreement in the country".

CHAPTER 5.

A view from the Boardroom: British business and the minimum wage

By Neil Carberry, Chief Executive, Recruitment and Employment Confederation, Low Pay Commissioner, 2014-2021

Like many policy successes, the National Minimum Wage has many parents, and a legend all of its own. Much of that legend is well-rooted in a decades-long debate about protecting workers from poverty wages. Some of its heroes – like the late, great Rodney Bickerstaffe – deserve the credit they get for moving the debate forward, overcoming the opposition of some in the union movement to the idea amidst fear that it would undermine collective bargaining. From the 1985 Labour Party conference on, the idea of a minimum wage, driven in particular by Rodney and Chris Pond, became a core part of the agenda of both the Labour Party and the Trade Union movement. In many ways, the 1998 Act and subsequent introduction of the National Minimum Wage was their victory.

And if there is a victor, must there also be the defeated? In political terms, of course the then Conservative Government and other parties opposed the wage amidst fears of its impact on jobs. And businesses too....

Hold on. Let me stop you right there. As someone who has been intimately involved with how businesses think about the minimum wage for two decades, and who worked with the people involved in the business debates of the 1990s, let me tell you that the narrative needs correction.

It is fair to say that businesses were not campaigners for wage intervention – of course they weren't. But they have never been appalled by the concept of it. Indeed, it is always worth remembering that there was no massive period of Wild West in minimum wage setting in the UK. Most of the remaining Wages Councils were abolished only by the 1993 Trade Union Reform and Employment Rights Act. Thatcherism so late stage that it happened under Major.

Indeed, by 1997, there was widespread acceptance of the idea of a National Minimum Wage amongst businesses – many saw the need to protect the lowest paid, and abhorred the undercutting of their business by those who would pay a pound an hour, or less. The CBI, for instance, while never a rampant advocate for minimum wages in the 1990s, was very clear that they accepted the case by 1997, arguing that "the appropriate and feasible purpose of the minimum wage is to create a 'floor' to the labour market".

The lessons of the past can guide action for the future

By 1997, then, there was at least acceptance of the principal of a minimum wage on both sides of the bargaining table – far earlier, for instance, than the development of a political consensus. As late as 2010, colleagues and I had to work hard with the Conservative Party to argue for the continuation of the Low Pay Commission (LPC) as a vital part of our policy-setting apparatus on wages.

When we look at the work of the LPC, we see value of positive engagement by business in the process of setting a wage floor. One of the economists on the original LPC famously reacted to Rodney and Chris's position on the rate of the wage by saying, "Why half? Why male? Why median? Why manual?". All fair questions – once you have accepted the principal, it is the rate that matters. Businesses always understood this – and it has always guided their position.

When the first rate was published – £3.60 – it was of course a disappointment to the old campaigners, but it represented a cautious introduction that could be ramped – as it was. And some thought business representatives had settled too high, as Alastair Campbell's diaries reveal when reporting the reaction of the then Prime Minister.

But this is the power of the structure that was created by the 1998 Act. The LPC has proved a durable and effective vehicle. As the late and lamented Professor Willy Brown said, in the good times the employers restrain the exuberance of the unions, and in the bad the unions temper the gloom of the employers. That the LPC process, bound as it is to the Commissioners working together through the evidence and sharing strong personal relationships that can take tough discussions, has survived 25 years and two huge recessions, suggests there may be something in it.

The first conclusion I would suggest, therefore, is that for business the existence of the LPC is a requirement for further progress on the wage. The process can never be mechanistic – there are times when following any measure of growth and inflation would be counter-productive for workers or employers – or both. Ministers must always decide – but the Commission must always recommend.

Valuable examples of why this is so were thrown up by the decision to introduce the so-called "National Living Wage" (NLW) after the 2015 General Election. The Commission's understanding of employment relations and the structure of progression in low paying sectors made it obvious to us that an adult rate starting at 25 was problematic for employers and workers alike.

A similar example can be seen in the decisions made by the Commission at the heart of the Pandemic, in 2020. The 2021 rate was moderated significantly from the previous path. This was done in a desert of valid data – the furlough scheme had much to recommend it practically, but from a wonkish pay stats point of view it caused no end of difficulty! It was Commissioners, not data, who steered the wage through the pandemic and have subsequently led it to catch up. In a crisis for consumer-facing businesses – the heartland of the minimum wage – policy did not make things worse for workers and their employers.

And that is the point. Businesses like the ability for decisions to be made on the facts as the LPC sees them, year-to-year. This avoids surprises – no-one wants the feast and famine of US-style rises – and helps firms predict how they can meet increasing costs with confidence. In essence, any trade union campaigning for a higher wage, should be working within the LPC system, not going around it. The LPC's recommendation is a mark of reassurance to businesses that a rate that feels like a stretch is deliverable.

Political action is an unpredictable friend

The counterpoint to this, of course is that both the major parties have made promises about the rate in recent years and in one case – the aforementioned NLW – delivered it. This could have put the whole model at risk. Leaving aside the fact that the NLW used up headroom that the LPC would likely have used anyway by removing the LPC's caution about the care system[1], the 2015 intervention was a bold step.

From a business perspective, it has always been clear that Ministers decide the rate, and the Commission recommends. Firms were uncomfortable about the NLW, but the use of the LPC to manage progress calmed nerves. It was always clear that the Chancellor had given the Commission a "big red button" to press in case of emergency. Had the pandemic occurred a year or two earlier, I don't doubt it would have been pressed.

For employers, the risk is not politicians committed to a rising minimum wage – businesses support that. It is in politicians setting big goals that are not supported by the data, that lead to impacts on low paid workers that are not easily seen when you are focussing on hospitality workers in big cities. We should care about hours lost to part-time women in coastal towns just as much.

So a second recommendation designed to maintain the support of businesses. Any long-term goal must have a safety valve. Getting minimum wage policy right is about people's lives. It is about raising income without dislocating employment and doing damage by that route. We cannot let the goal become so dominant that we ignore emerging evidence as we move towards it.

Joint problem solving matters

Finally, in thinking about wage policy, walk a mile in a small business's boots (the NMW is far more impactful on SMEs). A pound spent on wages can't be spent on other things, and we need investment made, training done and bills paid. In some ways, a rising wage floor can drive this – look at the shape of employment at your local golden-arched fast food joint, for instance. But in others it can slow it down – the weight of CBILS[2] repayments and rising wages has had a huge effect on many other hospitality firms' growth potential, for instance.

This is complex and requires sober thought. On the business side, a rising minimum wage is seen as a good thing – until a job creates less value per hour than the rate. Then there is a problem. How do we adapt? Tech to take over the role? Retraining to increase value creation? All are vital – but require more than a big promise on the rate. Businesses can and will pay more – but they need to make more to do it.

In its simplest terms, this is why you hear so much from businesses about industrial strategy. If we can better answer the question "Why invest here?" we will create the potential for productivity to rise – and the wage with it. But firms will want any future Government to engage in an open discussion about how to do it and – unlike previous versions – avoid imposing solutions from Whitehall that make no sense to workers or companies around the country. The abject failure of the Apprenticeship Levy should give us pause for thought in that regard.

A message of hope of progress

Taken together, the fundamental strain of thought that has dominated British business thinking about the minimum wage is pragmatism. There is no opposition to the concept of the wage, and precious little about the current level. What firms want is for any future policy to be grounded in their trading reality, and assessed by experts for whom how the policy sounds is not the guiding star. If that can be delivered – with a focus on helping firms to compete, then there is no reason that the experiment started in 1999 – raising the minimum wage as a percentage of the median – cannot continue. There are big questions to ask about the growing impact of course – the wage rise this year made a significant contribution to earnings growth at a time when some at the Bank of England were discouraging such things. And I think we do need a national debate about how much of the labour market we want to set wages for in a national collective bargain. But these things are questions that cannot be answered in a chapter. That is why business sees the LPC as critical to any future goals we have. We should be ambitious. Cautiously. It seems Willy Brown was right.

1 When you are the Chancellor and can introduce a Council Tax charge to offset the cost, you tend to be more relaxed.

2 Covid Business Interruption Scheme

CHAPTER 6.

Effective Enforcement: Making sure the minimum wage reaches workers pockets

Kate Ewing, PhD candidate at Pompeu Fabra University in Barcelona.

Introduction

In addition to setting the minimum wage rate at an appropriate level to ensure that the wage is sufficient to ensure a decent standard of living for workers and their families, a critical challenge for a statutory minimum wage is ensuring that the right translates in practice to wages in workers' pockets. It must be more than an aspiration on paper.

Effective enforcement of the statutory minimum wage is thus critical to realisation of wage protection for low paid workers in practice. This contribution will seek to briefly outline a particular deficiency in current minimum wage protection, the implications of the deficiency for workers, and propose a way forward on how the problem might be addressed.

Fragments of work time, the lack of pay transparency and challenges for enforcement

This section will briefly identify problems for some workers relating to the operation of the National Minimum Wage (NMW) in practice. In summary:

A problem exists in relation to a lack of pay transparency combined with complex pay calculations based on fragmented work time.

The effect is that many workers are not receiving wages to which they are entitled, and any enforcement action can be complex and lengthy.

Raising the rate at which these workers are paid, while welcome, would not be enough on its own to ensure that workers receive the full sums they are owed.

The NMW is based on the idea that the minimum wage is payable in respect of reckonable work time. It is not the case that the NMW (despite founding aspirations)[1] is a simple and straightforward protection which applies from the moment that a worker clocks on for a shift until they clock off at the end. In part this is due to modern work practices (perhaps encouraged or facilitated by the statutory model) which have fragmented the notion of work time which may see a period of time at the employer's disposal broken up into different categories. Apart from the performance of specific tasks, this may include travel, sleep in, waiting, and on call time which may or may not fall within NMW protection. Additionally, on demand work, zero hours contracts and other forms of atypical work introduce other layers of complexity.

Enforcement becomes particularly difficult where NMW non-compliance relates to some elements of time within a shift or workday not being paid for, rather than situations where workers have not been paid for entire shifts or blocks of time which can be easily identified. In the social care sector, in home care in particular, elements of time – usually some or most of active care time - is typically paid for. This is often calculated precisely to the minute. The problem for NMW compliance (and thus receipt) lies in the work time, reckonable according to NMW legislation, which surrounds the active care time – travel and waiting time.

Workers are presented with payments per pay period where they are unsure what has been factored into the pay calculation - how much, if any travel time and waiting time have been treated as reckonable by the employer. They are unable to check their pay on receipt and be sure it is NMW compliant without this information. This opaqueness also means that there is scope for employers to mask non-compliance. Furthermore, maintenance of personal work time records so that the individual worker can decipher their pay is very difficult in a context where some workers are working more than 20 or 30 different care appointments a day. Quite simply there is not time to keep track of each fragment of work time.

An Employment Tribunal case brought by UNISON home care workers in London serves as an important and sobering example of the challenges that low paid workers face in reality when seeking to enforce their right to receive pay which is compliant with the legal wage floor. The Harris[2] case ran for over four years before it was settled at the Tribunal door by agreement and the Tribunal consent order or judgment (unusually, perhaps, the terms were not confidential) records awards to nine workers totalling in excess of £100,000.[3]

It is noteworthy that these workers faced this lengthy battle to secure what was theirs, by law, in a context where the employers' defences had been struck out at a hearing in 2017 owing to non-compliance with Tribunal orders.[4] That means that their claims on liability were uncontested. Furthermore, this was also in a context where the applicable law is framed with a reverse burden of proof. That means, absent evidence that the NMW had been paid, the presumption was that it had not been paid. If the employer had no admitted defence, then the workers' claim was made out.

It is also evident that the Harris workers used the existing legislative tools at their disposal in order to try to secure their rights. Applications were made under Section 10 of the NMW Act where workers have a right to inspect their employer's NMW records. These are NMW records which employers are required to maintain as a matter of law. The employers failed to produce the records as required – this is documented in Tribunal judgments for awards of compensation to the workers as provided for under the legislation.[5]

With this we see a fundamental difficulty. Despite having an uncontested NMW claim against the employer and a right to access NMW records, where no records are produced (and even though awarded compensation for that breach by the employer), in the absence of such records the worker cannot easily demonstrate the NMW shortfall in their substantive wages claim and thus the sum they are owed. This is particularly acute in a context where a pay system has been developed which is highly complex, and which requires calculation of NMW compliance on the basis of multiple fragments of reckonable time. It is no exaggeration to say that for some workers this could entail hundreds of time fragments per pay period.

The Harris judgment is particularly illuminating in demonstrating the impact of complex and opaque pay systems and the fragmentation of work time on NMW realisation. The narrative element of the Employment Tribunal judgment sets out a summary of over two and a half pages of how a methodology was developed by the workers and their representatives in order to provide a reasoned best estimate, in the absence of NMW records, of the workers' likely earnings and thus arrears.

The Harris workers were unionised and supported by an active local branch and provided with legal representation. Regrettably this is not the typical experience of many low paid workers engaged in precarious work arrangements. Nor can litigation spanning four years and the associated costs be considered proportionate. In this regard the Harris case and judgment is noteworthy simply because it exists at all. This is why the insight gained from the case is important and worthy of close attention.

It is difficult to truly estimate the extent of NMW non-compliance which arises from this type of situation. In June 2023 the Government 'named and shamed' 202 employers for failing to pay their staff the national minimum wage. This was yet one more occasion on which employers were declared to have fallen short in complying with the legal wage floor – in this instance 63,000 workers were found left 'out of pocket' totaling almost £5 million. It was noted that of the employers named, 39 percent had failed to pay their workers correctly for their working time.[6]

It must be a matter of concern that these figures may in fact represent only the tip of the iceberg given that the lack of transparency and complexities highlighted by Harris are likely to be masking the full extent of arrears and numbers of workers affected. Furthermore, access to clear pay information to document underpayments has been acknowledged by the Low Pay Commission (LPC) as a feature in evidence it receives on the ability of workers to enforce their minimum wage rights.[7]

The tacit denial of the right to a minimum wage occurs by making it disproportionately difficult to enforce. It is made difficult to the point that for many, particularly non-unionised workers, it will be effectively unenforceable. For the NMW to be adequately future proofed this issue must be actively addressed, with urgency. It would be naïve to believe that the overlapping problems of work time fragmentation and the lack of pay transparency resulting in NMW wage violations will be limited to one sector alone. The experience of workers in the care sector will also be shared by workers in other sectors.

It is also arguable that these barriers to enforcement serve to reinforce (if not create the fertile ground) for further wage compliance violations and in turn more fragmentation of minimum wage pay and rights protections. Raising the rate of the statutory minimum wage, while undoubtedly welcome for many, will not be sufficient on its own to protect the statutory minimum wage rights of those in greatest need.

Requiring greater pay transparency – a possible tool to aid enforcement?

There are many broad questions – political, philosophical, industrial – to be considered when thinking about the best way to protect the wage rights of low paid workers to ensure that wage floor protections are just and fair. What is clear is that whatever approach is adopted, this must translate into having a meaningful impact on workers. With this in mind, and with consideration of the need for a realistic and pragmatic approach, this section highlights one step which could be taken to supplement plans to increase the rate of NMW in order that much need money gets to the pockets of low paid workers. In summary:

Regulations should be enacted under section 12 of the NMW Act to require provision of a minimum wage pay statement to workers by employers.

This would provide workers with pay information to aid both workers and enforcement agencies in enforcement due to greater pay transparency.

It is a means of ensuring that the ambition of a higher minimum wage is achieved not just in theory but also in practice so that it positively impacts the people who matter most in this context, workers receiving low pay.

The LPC aim from the outset was a NMW which was 'straightforward to enforce.'[8] It was noted that both employers and workers were in agreement that a successful NMW required effective implementation and enforcement.[9] The requirement that employers give workers a national minimum wage statement relating to their pay was part of the original thinking and architecture of the NMW Act. Specific provision was made for the power to make regulations for this under section 12 of the Act which states:

s 12 Employer to provide worker with national minimum wage statement

Regulations may make provision for the purpose of conferring on a worker the right be given by his employer, at or before the time at which any payment of remuneration is made to the worker, a written statement.

The regulations may make provision with respect to the contents of any such statement and may, in particular, require it to contain –

prescribed information relating to the Act or any regulations under it; or

prescribed information for the purposes of assisting the worker to determine whether he has been remunerated at a rate at least equal to the national minimum wage during the period to which the payment of remuneration relates.

Enforcement was important and its facilitation was at the heart of the provision because, according to the LPC, without robust enforcement 'unscrupulous employers may gain an advantage over reputable ones, and the most vulnerable workers will not be protected.'[10] This would in turn undermine the NMW. The LPC critically did not view the requirement to record the hourly NMW rate along with details to show compliance on wage slips to be an 'undue burden' on employers.[11] This was because they were already required to provide payslips to employees (now extended to workers),[12] and would be required to maintain

NMW pay records under the NMW provisions.[13]

The effect of providing the additional information would be to both inform workers and demonstrate compliance. It was said that this effectively created the self-enforcing nature of the provision and that in itself would relieve the burden on the employer because they could be satisfied that all was in order and they were legally compliant.[14] The LPC expressly recommended that employers should be obliged to 'to display on pay slips both the National Minimum Wage and details to enable workers to confirm readily whether they have received the statutory minimum.'[15]

It was thus both disappointing and a mistake that the regulations under section 12 were not and have not ever been made. The decision not to proceed with the requirement of a minimum wage statement was said in 1999 by Bob Simpson to remove 'a vital link from the chain of enforcement mechanisms.'[16] That such an assessment and warning was well made has only been further reinforced with the benefit of hindsight and passage of time. The absence of this element from the statutory NMW protection has left, and leaves, workers under-protected and raises the risk of the right to minimum wage compliant pay being further undermined.

Therefore, an immediate step which ought to be taken is the enactment of regulations under section 12(2)(b) of the NMW Act to require employers to produce a minimum wage compliance statement on payslips which workers can verify at the point of payment. Employers should already be carrying out compliance calculations in order to satisfy themselves of the lawfulness of the payments they make to their workers. Any provision of a compliance statement would simply entail said calculation being passed on to workers at the point of payment in a transparent way. The provision of this information would make it easier for workers to see if mistakes had been made or work time omitted.

To critics who argue that this would be an undue and unfair burden on business, there are two responses. The first is to repeat the response of the original LPC – that there is no such burden on employers because this is information a compliant employer should have to hand if they are to be satisfied of their own lawfulness. Indeed, far from a burden it potentially benefits employers because it facilitates an increasingly self-enforcing NMW mechanism.[17]

The second response is that even if there were to be some burden on employers, the lessons of the last twenty-five years demonstrate that such a burden is incomparable to the burden placed on workers in the absence of full transparency.

Any administrative burden on the employer of the provision to workers of information which the employer should already have in its possession cannot be said to exceed the burden which is placed on workers who potentially face non-compliant pay and complex and lengthy legal claims as result. Additionally, rights subject to barriers and weak enforcement risk being very seriously undermined. Greater pay transparency would also facilitate the work of enforcement agencies. It is thus both an access to justice and an administration of justice issue.

Conclusion

A statutory minimum wage for the future needs to be accompanied by mechanisms to ensure that the wage is actually received by workers in practice so that it provides a genuine and secure wage floor protection. It is in keeping with the spirit of the original aims of the legislation and strengthens the benefit of any proposed increase in the NMW rate to require a national minimum wage compliance statement on pay slips. Reputable employers have nothing to fear. On the contrary, it would protect good employers from the damaging practices of unscrupulous operators.

Workers are currently left at risk of non-compliant pay and with real and substantial difficulties in seeking to enforce their rights. Increasing the statutory rate while welcome, is unlikely to be enough on its own to address the issues faced by low paid workers in that context. Making regulations under section 12 NMW Act to require the provision of a national minimum wage compliance statement is something that should be done and can be done. It would positively impact the statutory minimum wage as a protection for workers.

This provides the most compelling argument for action – the better protection of workers' rights to a fundamental labour protection and dignity in relation to their pay. If the introduction of the obligation to provide a worker with a national minimum wage compliance statement also has the effect of disincentivising negative, fragmentary labour practices because they become burdensome to administer in a regulated context, all the better.

[1] Low Pay Commission (first report), 1998, 'The National Minimum Wage,' p. 1 para. 3 https://webarchive.nationalarchives.gov.uk/ukgwa/20070603154510/http://www.dti.gov.uk/files/file37987.pdf accessed 19 August 2023

[2] See also Ewing, Kate, 2021, 'A just share': the case for minimum wage reform, Institute of Employment Rights https://www.ier.org.uk/product/a-just-share-the-case-for-minimum-wage-reform/ accessed 19 August 2023

3 Harris & 8 Others v (1) Kaamil Education Ltd (2) Diligent Care Services Ltd Case No.: 1302183/2016 https://assets.publishing.service.gov.uk/media/5f6495f0e90e075a01d2f4d5/Ms_E_Harris_and_Others_vs_KaamilEducation_and_others._-_Judgment.pdf accessed 19 August 2023. Also Moorepay 'Did home care staff receive unlawful deducation of wages?' (2021) https://www.moorepay.co.uk/blog/did-home-care-staff-receive-unlawful-deduction-of-wages/ accessed 19 August 2023

4 With many thanks to Ben Patrick, former Solicitor and Legal Officer at UNISON for his comments and clarification.

5 Smith v Diligent Care Services Ltd Case No.: 3200839/2017 https://assets.publishing.service.gov.uk/media/5a0ee9a2ed915d34eada19a9/Ms_G_Smith_v_Diligent_Care_Services_Ltd_32008392017_Remedy.pdf accessed 19 August 2023
Harris & 5 Others v Kaamil Education Limited (t/a Daryel Care) Case No.: 3325381/2017
https://assets.publishing.service.gov.uk/media/59dca391e5274a5becce36d8/E_Harris_v_Kaamil_Education_Ltd_3325381-2017_Full.pdf accessed 19 August 2023

6 Department of Trade and Business Press Release, June 2023, https://www.gov.uk/government/news/more-than-200-companies-named-for-not-paying-staff-minimum-wage accessed 19 August 2023

7 Low Pay Commission, 2021, 'Non-compliance and enforcement of the National Minimum Wage,' p.14 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/978383/2021_LPC_non-compliance_report.pdf accessed 19 August 2023

8 Low Pay Commission (first report), 1998, 'The National Minimum Wage,' p. 52, para. 4.3

9 Ibid, p. 147

10 Ibid, p. 148, para. 8.1

11 Ibid, p. 148 para. 8.12

12 Employment Rights Act 1996, s 8.

13 National Minimum Wage Regulations 1999, regulation 38, now National Minimum Wage Regulations 2015, regulation 59

14 Low Pay Commission (first report), 1998, 'The National Minimum Wage,' p. 148, para. 8.12

15 Ibid, p. 148, para. 8.13 and 8.14

16 Simpson, Bob, 'Implementing the National Minimum Wage – the 1999 Regulations', (June 1999) Industrial Law Journal, Vol 28, No. 2, p. 171-182

17 Low Pay Commission (first report), 1998, 'The National Minimum Wage,' p. 148, para. 8.12

CHAPTER 7.

The National Minimum Wage and the Gig Economy

Alex J. Wood, Nicholas Martindale and Brendan J. Burchell

The past decade has seen the rise of powerful digital platforms and the establishment of the 'gig economy'. [1] This has underscored the limitations of existing labour market protections. After all, contemporary labour laws and conceptions of employment largely originate from the 1960s, well before the existence of digital platforms. Today platforms increasingly act as powerful third parties able to strategically manage demand and supply, overcome coordination problems, and reduce information and contracting costs, all without needing to formally employ large workforces.[2]

Labour laws were initiated in recognition of the need to rebalance the asymmetrical power relations that exist at the heart of the employment relationships. The economic dependence of workers on employers means that paid work entails a relationship of ongoing subordination that renders workers vulnerable to exploitation. This understanding of dependence, subordination and the potential for exploitation is traditionally viewed as applying only to employment. The exclusion of the self-employed from labour rights and protections was, therefore, by virtue of these workers not being classified as employees (i.e. not existing in a relationship of ongoing subordination to an employer). In contrast to employees, the self-employed are instead legally characterised as constituting businesses in their own right and, therefore, as entering into service agreements with their customers which are governed by self-enforced contracts (adjudicated by courts when disputes arise).[3]

In the UK a third 'worker' status exists for cases where the level of dependence and subordination is deemed to be significant but not sufficient to constitute employment. Importantly, workers are entitled to the National Minimum Wage (although some other important labour rights and protections are not guaranteed – most importantly sick pay and protection against unfair dismissal). However, the growth of platform companies has undermined the rationale for these distinctions and made the application of these discrete employment classifications less straightforward. Platform companies themselves often argue that they simply provide a digital means for entrepreneurs to connect and do business, and as such they are just technology providers who enable efficient market matching between self-employed individuals and customers. In reality, labour platforms do far more than this; they embody forms of dependence, control, governance and managerial authority.[4] Nevertheless, many gig economy workers retain the freedom to decide which jobs they take and which clients and customers they work for, and they can set their rates and choose to subcontract work to others. Thus (according to present conceptions) many gig workers do not reach the necessary threshold of subordination to be classified as "employees" or "workers". This situation enables platform companies to operate within a regulatory grey area beyond existing employment rights and labour protections.[5]

A major barrier to ensuring those who work via platforms are adequately protected against exploitation is the view that it only those undertaking 'employment' and currently classified as 'employees' or 'workers' who need protections. In fact, recent research, undertaken by the Gig Rights Project, which surveyed 510 workers from across the UK gig economy, found that over 50% were earning below the National Living Wage (then £9.50)[6]. Moreover, data from this research indicates that platform work in the gig economy is generally not the inconsequential side-hustle it is sometimes portrayed to be. The median respondent actually spent 28 hours a week working via a platform, with this work accounting for 60% of their total income. The importance of this income combined with its precariousness not only caused material deprivation but also psychological suffering with 65% reporting being anxious about future changes that might reduce their pay. Additionally, 67% agreed that they worry about clients giving them unfair feedback that impacts their future income. Despite the importance of platform labour for making ends meet, 58% of the respondent felt that they would not have any say in decisions that changed the way they went about their work. Perhaps unsurprisingly then the National Minimum Wage, followed by holiday and sick pay, were the most popular choices when asked which rights would most benefit their working lives if applied to platform work. Tellingly this demand for the minimum wage existed despite the respondents overwhelmingly describing their platform work as self-employment (88% vs 2% workers (dependent contractors) and 8% employees).

These findings are a testament to the pressing need to amend our understanding of who requires labour protections, such as the minimum wage, in the contemporary labour market. The gig economy creates a situation in which the livelihoods of hundreds of thousands of formally self-employed workers are inexorably dependent upon the actions of particular platforms over which they by and large have no influence.

The existence of clear power asymmetries in the gig economy warrants the expansion of the minimum wage to protect workers from the potential for platforms to abuse their power, regardless of employment classifications. Doing so necessitates rethinking the conventional understanding of the relationship between labour protections and employment classification. The simplest way to achieve this would be to expand the existing 'worker status' so that it includes all those whose work is organised through a digital labour platform and undertaken by an individual on the basis of a contractual relationship regardless of whether they are formally self-employed or not.[7]

A further challenge to expanding the national minimum wage to the gig economy is the issue of working time. The Supreme Court recently confirmed Uber drivers to be working, and therefore entitled to the minimum wage, whenever they had the Uber app turned on and were willing to accept customers[8]. Uber, however, has chosen not to implement this ruling, instead arguing that it has changed its platform to ensure that drivers are now only working when they have a customer in their car. Being paid whenever logged on to the platform/app and looking for work was identified as the priority for workers in the Gig Rights Project survey. This is understandable as one factor contributing to low rates of pay was the significant amount of time workers spent logged on to a platform and waiting for or looking for work. However, the application of this definition of working time to those platforms where workers can spend an unlimited time searching for work and choose, to varying degrees, the jobs they do would be challenging to implement; platforms would have to limit the time workers spend searching for work. This could be detrimental to both workers, customers and platform companies in reducing positive matches. An alternative would be for the minimum pay rate to be set high enough that the median worker on that platform is compensated adequately for their time looking or waiting for work. This additional payment would vary according to platform and be akin to how piece rates are currently calculated under existing minimum wage legislation. To increase workers' trust that these pay rates are accurate and fair, their calculation could be overseen by elected bodies made up of representatives of the platform's workforce who are granted access to the necessary platform business data and the means to survey the workforce. Likewise, where platform work entails complex piece rates or project work, these worker councils could set minimum rates that ensure the average worker earns at least the minimum wage. Where workers felt they were being paid a rate below the minimum wage, they could have the ability to request the worker council investigate and potentially set a new rate for that type of work.

In conclusion, the existence of digital platforms – powerful third parties that not only provide digital infrastructures but also create, strategically manage and govern access to jobs and ultimately determine the terms under which they are undertaken[9] – makes it imperative that the UK's minimum wage be decoupled from present notions of employment. The low pay and poor conditions that we find in the UK gig economy are exactly the kind of market failures that the minimum wage was envisioned to protect against via the provision of a wage floor. Whether someone is classified as an employee, worker, or self-employed according to traditional conceptions is immaterial to the potential for them to experience exploitation and dependency when they rely on labour platforms to make a living. The vast majority of workers in the UK gig economy seemingly see their platform as self-employment (i.e. working as a freelancer or independent contractor) but also want the security and protection that would be provided by the expansion of 'worker' status to encompass platform labourers. Finally, difficulties in calculating working time and pay rates for complex piece and project work could be overcome via the creation of representative platform worker councils. In this way, the gig economy could be transformed from the sharp end of labour degradation to a test bed for humane and democratic reforms for the wider labour market of the 21st century.

1 Both Uber and Deliveroo began establishing themselves in the UK in 2012 and 2013, respectively. TaskRabbit also launched in the UK in 2013, however, less visible remote gig work was being undertaken in the UK for several years prior to this. Charlton-Czaplicki and Hukal (2022) use the random probability 'Understanding Society Survey' to estimate that 1.4% of adults in the UK currently make a living from the gig economy. One estimate suggests that around 750,000 adults currently make a living by selling their labour via digital platforms

2 Wood and Lehdonvirta (2021).

3 Sisson (2008); Wood and Lehdonvirta (2021).

4 Wood and Lehdonvirta (2021).

5 Aloisi (2016); Cherry (2016); De Stefano (2016); Prassl and Risak (2016).

6 Wood AJ, Martindale N and Burchell BJ (2023) 'Gig Rights & Gig Wrongs.' Initial Findings from the Gig Rights Project: Labour Rights, Co-Determination, Collectivism and Job Quality in the UK Gig Economy. https://www.bristol.ac.uk/media-library/sites/business-school/documents/Gig%20Rights%20&%20Gig%20Wrongs%20Report.pdf

7 The proposed EU Directive on Platform Work provides a useful definition of platform work which can form the basis for identifying who these rights should apply to i.e. all cases where the work is organised through a digital labour platform and undertaken by an individual on the basis of a contractual relationship between the platform and the individual, irrespective of whether a contractual relationship exists between the individual and the recipient of the service.

8 https://www.supremecourt.uk/cases/docs/uksc-2019-0029-judgment.pdf.

9 Wood and Lehdonvirta (2022).

CHAPTER 8.

From a Living Wage to Living Hours

Katherine Chapman, Director of the Living Wage Foundation

Against a tough economic backdrop of pandemic and soaring inflation, UK businesses have defied the odds and signed up to join the Living Wage movement in record numbers over the past two years. What started as community led campaign in East London over twenty years ago, is now a national movement with over 13,000 Living Wage Employers across the UK, signed up to pay the independently calculated real Living Wage to all directly employed and subcontracted staff. As a result, over 400,000 workers get a wage based on the cost of living, which is higher than the minimum wage. Almost £2 billion has gone back into the pockets of low paid workers since the campaign began.

The real Living Wage is different from the Government's National Living Wage. The National Living Wage, introduced by the government in 2016 is the government minimum for all staff over 23. It is not calculated according to what employees and their families need to live. Instead, it's based on a target to meet 66% of median earnings by 2024. The National Living Wage is currently £10.42 and the minimum wage (for under 23s) is £10.18.

The real Living Wage rates are higher because they are independently calculated based on what people need to get by. That's why we encourage all employers that can afford to, to ensure all their employees earn a wage that meets the cost of living, not just the government minimum. The real Living Wage is currently £12.00 and a higher rate of £13.15 for those in London (all boroughs in Greater London). The real Living Wage is based on an annual calculation and the new rates are announced every Autumn.

The real Living Wage is not just good for workers and their families. Unsurprisingly, when workers are paid a wage that allows them to afford everyday essentials instead of scraping to get by, they feel more valued by their employer and are less likely to look for work elsewhere. Over 90% of Living Wage Employers report that paying a higher wage floor has benefitted their business, whether through more motivated staff that perform better at work to the reduced turnover rates and recruitment costs.

We hear from employers who can also quantify the benefits of the living wage. Chris Smallwood, managing director of living wage-accredited Anchor Removals, says the number of working days his business lost to staff off sick fell from 131 to just 23 within a year of living wage accreditation, dropping again to 11 in the year before the pandemic. Attributing that change to the positive impact of higher wages on the health and wellbeing of his staff, Smallwood estimates living wage accreditation has saved his company £18,000 a year.

And it is not just individual businesses that stand to benefit. New research published by the Living Wage Foundation and the Smith Institute has found that lifting just a quarter of low-paid workers on to the living wage could boost the UK economy by £1.7bn — in part because of the increased productivity associated with health and wellbeing that decent wages promote.

But despite the progress the Living Wage has had on tackling low pay - with the percentage of people earning below the Real Living Wage falling from 22 to 12% since 2016 - work is not done to tackle low pay. There are still 3.5 jobs paying below the real Living Wage. With the cost of living crisis ongoing, no one is feeling the pinch more than those on low pay. Recent Living Wage Foundation polling of full-time workers earning less than the real Living Wage, revealed shocking levels of hardship.

More than half (56 per cent) of low paid workers have turned to food banks to get by, 42 per cent are regularly skipping meals, and 69 per cent report that the pay they receive negatively affects both their levels of anxiety and their overall quality of life. We must continue to encourage businesses to take leadership and pay their staff a decent wage.

Sufficient, predictable hours are the other side of the coin in terms of tackling low pay. It's only a Living Wage if you have enough hours to make ends meet. However, progress on tackling insecure work has so far been much slower than progress against low pay. In seven years, the incidence of insecure work has only fallen marginally from 23% to 19%. While one of the most pernicious forms of insecure work, zero hours contracts, has continued to grow to the level of 1 million jobs. Insecure work – especially when coupled with low pay – remains a vicious combination trapping millions of people in in-work poverty, unable to plan a life or a budget.

New research from the Living Wage Foundation released in August 2023 reveals that a staggering figure than more than 6 million (6.1m) UK jobs are insecure. This includes 2.9 people, who are in the bottom half of income distribution, who work variable hours with fluctuating income. 1 million people employed in temporary jobs despite wanting a permanent position and millions of people on zero hours contracts; in low-paid self-employment; and not being given enough working hours needed to make ends meet.

Insecure employment also costs more. This 'insecurity premium' can reach up to £600 per year, because of last minute shift cancellations or being called into work at short notice. For example, over a quarter (27%) of insecure workers had to spend more on travel costs, one fifth (17% have had to pay higher childcare costs and around a quarter (24%) have had shifts cancelled unexpectedly with 25% then not paid at all. With pay packets already eroded by high inflation, these additional costs place yet another pressure on those at the sharpest end of the cost-of-living crisis.

People most affected by insecurity are also often those least able to manage its financial burdens. 3.4 million workers are caught in both low-paid and insecure work. Low paid workers are five times more likely to also be in an insecure job compared with those paid above the real Living Wage. Minority ethnic workers are also more likely find themselves trapped in low-paid insecure jobs than their white counterparts (12% vs 9%) and women are disproportionately affected by zero-hours contracts. 55% of zero hours contracts are held by women.

The report reveals that Health and Social care workers are worst affected, with almost 900,000 workers in insecure work. The study found that a fifth of UK workers (6.1 million) are in insecure jobs, meaning that 1 in 7 insecure jobs in the UK are in the health and social care sector. With 1 in 5 health and social care workers also in low pay, it is unsurprising that the sector is facing a crisis of recruitment and retention.

The challenge is significant, but so is the opportunity for businesses to step up and offer secure, reliable, decently paid work. That's why we launched Living Hours – the other side of the coin to the Living Wage – and we are pleased that there are now nearly 100 accredited Living Hours employers across the UK including Aviva and Spare Room, who have all signed up as Living Hours employers.

Our Living Hours scheme requires employers pay the real Living Wage, as well as providing at least 4 weeks' notice for every shift, with guaranteed payment if shifts are cancelled within this notice period. Living Hours employers also provide a guaranteed minimum of 16 working hours every week (unless the worker requests otherwise), and a contract that accurately reflects hours worked. This commitment also extends to regular third-party contractors.

As a result, Living Hours employers are reporting better staff retention and motivation, and a happier and less stressed workforce. For example, Zixtel, recycling company based in Yorkshire, reported "warehouse recruitment become easier, they've seen much higher retention rates, and significant increases to productivity, meaning the benefits of accreditation far outweigh the low implementation costs."

Jennifer Clarke, who works at underwear manufacturer Molke, recently explained to us the difference Living Hours made to her: "Before working at Molke, I was in a zero hours contract. At first I thought the flexibility would be beneficial but in reality it was very precarious and I would be asked at a moment's notice to work. As staff, we were never fully clear about our rights and it was unsustainable for us to make a living. The security and clarity I get working at Molke has made my life a lot easier. I can make plans with the knowledge they won't be interrupted and I know exactly what money is coming in each month."

The strides made in combatting low pay in the UK serve as a testament to the power of what can be achieved when employers step up to provide a decent standard of living for employees. Job security is a critical next piece of the picture and a way we can work together to try and eradicate in-work poverty in the UK.

CHAPTER 9.

The case for young women receiving the full rate of the NMW

Claire Reindorp and Mark Gale,
The Young Women's Trust

Young people and legal pay discrimination

Imagine if you were told that you were being paid less than a colleague just because you were a person of colour. Or disabled. Or a woman. Unsurprisingly, you might feel outraged and you would have a route to legal protection. Of course, many people don't have to imagine. These pay gaps do exist and do prompt outrage. But they do, increasingly, also attract political and corporate energy by those seeking to end pay injustices.

There is still a long way to go in those battles and there isn't room for complacency. However, when it comes to the national minimum wage, pay discrimination by age remains legal and the status quo, with those aged 23 and over entitled to £10.42 an hour, 21- and 22-year-olds entitled to £10.18 and 18–20-year-olds to £7.49, whilst under 18s and apprentices can earn as little as £5.28 an hour.

This is despite the Low Pay Commission recommending in 2019 that eligibility for the full rate of the National Living Wage be extended from those aged 25 and over to anyone aged 21 or over. Progress towards this goal has been slow, with 21 and 22 year olds not due to be brought into the NLW until April 2024 and there is resistance to going further and making workers of all ages eligible for the full rate.

This resistance continues despite the growing evidence about the scale of the financial challenges facing young people during the cost of living crisis. Of course your costs don't reduce when you're 22 compared to 23, or if you're a 19 year old who can't live with your parents and are facing rapidly escalating rent, energy and food prices.

And let's be clear, with women more likely to be being paid below the real living wage, we are talking about tens of thousands of young women struggling to make ends meet. The simple act of extending the National Living Wage rate to apply to all workers, regardless of age has the potential to transform the lives of young people – and particularly young women – living in poverty.

The cost of living crisis

Young Women's Trust's latest annual survey[1] has laid bare the financial realities for young people in 2023, particularly for young women. They are increasingly filled with dread about the state of their finances and this is having huge consequences. Faced with rising debt, deteriorating mental health and a loss of hope for the future, they are being forced into inhumane sacrifices; sacrifices that wouldn't be necessary if they were entitled to a higher wage.

Our survey showed that:

- 79% of young women and 64% of young men said the rising cost of living was making things financially difficult for them
- 56% of young women and 41% of men described their current financial situation as 'not that comfortable' or 'not at all comfortable'. Last year these figures were 49% and 42% respectively.
- 46% of young women and 31% of young men told us that their financial situation has got worse over the last 12 months. A year ago 38% of women and 30% of young men agreed with this statement.
- And it comes as no surprise, given the lower rates of minimum wage they are entitled to, that the youngest women are, on many measures faring even worse, with the survey showing that in the last 12 months:
- 34% of young women aged 18-24 had been unable to afford food or essential supplies compared to 29% of women aged 25-30
- 41% of the youngest women said their mental health got worse (38% for the 18-25 group)
- 26% had fallen behind on rent or bills (compared to 24% for the older group)
- 28% had had to choose between heating and eating (compared to 26% for the older group)

The income gap facing young women

Of course, increasing the national minimum wage rates would benefit both young men and women. However, we know that even at the earliest stage of their working lives young women are earning less. They already earn, on average, £5,000 less per year than young men leaving them fewer resources with which to cope.

Our research has found several reasons for this:

- Men and women going into different jobs and sectors. Women are more likely to work in industries where pay is lower overall, or where the types of jobs that women tend to do are lower paid. It is these young women especially who stand to benefit from an increase to the minimum rate of pay for under 23s.

- Young women are also in industries which have big pay gaps. Many young women are also working in sectors which have larger pay gaps. This is likely to be due to the roles that they take on in those sectors as well as more limited progression.
- Women are paid less even when working in similar jobs and sectors and having similar characteristics. For example, a woman with children working in the same sector as a man would face more of a financial penalty for having children.
- Young women are more likely to be working part time. This hits their income three times over as they work fewer hours, receive a lower hourly rate for their work and are less likely to progress due to working part-time.
- Young women get lower returns from education: Young women are more likely to have a degree but men receive higher premiums for having a degree than young women. If men were educated as highly as women are on average, the pay gap would be even bigger.
- Young women get less of a wage premium for staying in a job. Men see their income rise more quickly as they remain in a job, most likely because men are progressing more quickly than women.

The bottom line is that young women are especially likely to find themselves in low-paid jobs and they are more likely to get stuck there. Ending age limits to the national minimum wage is particularly vital for young women who are struggling to get by right at the start of their working lives.

Evidence[2] from Ireland indicates that the national minimum wage closed the hourly gender pay gap at the lowest levels of pay. This research suggests that gendered differences in non-compliance is stopping the same happening in the UK. Others write in this pamphlet on enforcement of the minimum wage and Young Women's Trust research underlines how critical effective enforcement is. Last year, one in five (20%) young women told us that they have been paid less than the minimum wage they were entitled to.[3]

Ending age-related rates of the NMW

This last bastion of legal pay discrimination is often justified with concerns about maintaining youth employment. However, there was little impact on employment rates of 23 and 24 year-olds from paying the full rate to this age group and modelling predicts a similar situation from extending the rate to 21 and 22 year-olds from next year[4]. This doesn't come as a surprise. When Young Women's Trust asked business about the value of young people, 4 in 5 said they made an equal or better contribution than older workers[5].

Our research shows that 1 in 10 young women have claimed benefits for the first time this year. Low wages and soaring costs are keeping them and other young people locked in a cycle of dependency from which many struggle to break free. It makes economic sense to boost the wages of younger workers by extending the rate of the National Living Wage and support them on a path towards financial independence.

There is also a strong compassionate and moral case for extending eligibility for the National Living Wage to ease the strain and support young people through a period that is having a devastating impact on their financial and mental wellbeing – young people who have come straight out of a pandemic into a cost-of-living crisis.

Paying young people less sends the message that they are worth less. It would make a huge difference to the many young people – disproportionately young women - who are living in dire poverty. A fair wage can give independence, increase self-worth and boost productivity and equality, benefitting businesses and the economy. Now imagine how we could all benefit from that.

1 Unpublished independent survey carried out by Yonder Data Solutions on behalf of Young Women's Trust, between 19th June and 1st July 2023. Representative sample of 4061 young women and non-binary people and 1,049 young men aged 18-30

2 Minimum Wages and the Gender Gap in Pay: New Evidence from the UK and Ireland, Institute of Labor Economics, April 2018 https://docs.iza.org/dp11502.pdf

3 Just Gettng By: Young Women'sTrust Annual Survey 2022. https://www.youngwomenstrust.org/our-research/annual-survey-report-2022/

4 Young Women's Trust 2019, Paid Less Not Worth Less: Achieving Equal Pay for under 25s, https://www.youngwomenstrust.org/wp-content/uploads/2018/07/Paid-less-worth-less.pdf

5 Unpublished independent survey carried out by Yonder Data Solutions on behalf of Young Women's Trust, between 19th June and 1st July 2023. Representative sample of 4061 young women and non-binary people and 1,049 young men aged 18-30

CHAPTER 10.

The minimum wage's boomerang effect

Morgan Wild, Head of Policy, Citizen's Advice

It wasn't so long ago that we only saw people in the very worst of crises in a negative budget — spending more on essentials than they have coming in. But it's started to draw more and more people in. It used to be that the minimum wage acted as a bulwark, largely protecting people from this. But now the water's broken through and people we see receiving the minimum wage only have a 50% chance of not being in a negative budget. Even after our advice does everything it can, an increasing number just can't get back into the black.

As we celebrate 25 years of the minimum wage, it's a stark reminder of how much further we have to go. But it also shows what a powerful tool minimum wage increases can be. Few things have stymied the rise in people coming to us in this hopeless situation: the only dips in crisis we see have come after minimum wage increases And further increases would be one of the most effective ways of tackling this generational challenge.

Minimum wages are an effective tool of social policy - it's plain as day in the stories our advisers see every day. We should see how far we can push them. If that were all there was to it, this would be a short contribution.

I want to be clear: that is still most of what there is to it. But for some workers, minimum wage increases boomerang back on them, perversely making them worse off than they were before - or at least not making them much better off. That's not the minimum wage's fault: rather the blame lies with how it interacts with other policies in some ways that are intended, some that are not.

Economists have long been on the hunt for negative impacts of the minimum wage. But they've looked in the wrong place: as much as we know anything in social science, we know that the minimum wage hasn't increased unemployment. But those negative effects exist: they just exist in the murkier parts of the welfare system. The first part of this chapter considers those effects and how we might deal with them.

The second part deals with more traditional ground: the high marginal tax rates low income workers face as a consequence of the design of Universal Credit and other benefits. These are the most difficult trade offs to which I don't come to a satisfying or satisfactory conclusion. But they are important to think about nonetheless.

Anne is a hairdresser and beautician. She's struck out on her own to do at-home visits, rather than base herself in a salon - she's taking a risk to try and grow a business for herself.

It's started out tough: the cost of living crisis has meant fewer people are willing to pay for at-home visits and she's not turning the profit she wants to. But she still wants to make it work.

Setting a benefits policy for self-employed people is hard. You want to encourage people like Anne to be entrepreneurial and give them the best chance to succeed. But you also don't want to subsidise businesses that aren't working forever.

The rule that we currently have is this: most people will get a year's 'start-up period' if they're pursuing a genuine business. In that period, any earnings in your benefits claim get reduced based on what you actually earn. But after that year (and sometimes before) you'll have the Minimum Income Floor applied. For Anne, it assumes that you're earning a full-time minimum wage job - whether you are or not.

That's had a sudden and dramatic impact on Anne's finances. She came to us when that floor had just been applied - meaning her Universal Credit payment now only covers her rent and she has around £200 a month from earnings to try and live on.

Anne came to us in February this year. The minimum wage went up in April by around £1,600 pounds per year - great news for most low paid workers. But bad news for Anne, whose benefit payments will be even lower as a result.

It's not just a problem for the self employed. You see the same kind of problem for low paid employees. Our benefits system has earning thresholds: how intensively you're expected to look for more work depends on whether you earn more than these thresholds.

In Universal Credit there's a traffic light system for how much work search you're expected to do. Below a certain income, you're in the red zone: you're usually expected to spend the same amount of time searching for work as you would doing a full time job and meet your work coach weekly. Then there's a light touch, amber zone: you have to have a couple of chats with your work coach and continue to look for work, but that's it. Finally, there's a green zone where you don't have to do any work search at all.

What income is required for each of these zones is determined by the number of hours per week the department thinks you should be working based on circumstances like whether you have kids or not. It's always linked to the minimum wage. If you're a single person who's fit to work, you'll be in the green zone if you work full time at minimum wage. For the light touch zone, recent changes will push it to 18 hours per week at minimum wage.

This leads to some bizarre consequences. Ghulani is on Universal Credit and expected to be working 16 hours per week at minimum wage. Which he is! But because he's paid weekly and Universal Credit is calculated monthly, in some months to the computer it looks like he's not earning enough. That's enough to trigger mandatory weekly meetings with his work coach to discuss how he should be working more. As the minimum wage rises, more and more people get caught up in this kind of labyrinthine meddling.

It's one of the ways in which we make the lives of poorer workers harder, by subjecting them to such stringent requirements. And it's a sad irony that one of the most effective tools we have for empowering these workers is making some of them worse off.

Of course, it doesn't need to be like this. Most of these interactions are the result of rigid rules, applied without caution, not designed with what will lead to the best outcomes in mind. The aims of these rules aren't unreasonable. The public don't want to subsidise failing businesses forever; they want people to thrive in work. It's the ludicrous execution that the government needs to change.

There's other ways rising minimum wages can, perversely, reduce people's incomes. Here's some additional support you might be eligible for if you're on a low wage: free school meals, warm home discount to help with your energy bills, cost of living payments, help with your broadband, reduced water bills. But you only get this at certain income thresholds - free school meals, for example, aren't available for households earning over £7,400 per year.

After those points, they can be removed entirely. If you're on a low wage and the minimum wage increases to take you over a particular threshold, you can once again end up with a lower income than when you started. Free school meals are worth £500 per annum. Low income workers will need to make an additional £1k to make up for that loss.

While problems like the minimum income floor and earnings threshold are problems of system design, this problem is genuinely one you can only address with more money. It has that in common with the last - and potentially largest - challenge for workers on the minimum wage: the high tax rates they face as they earn more.

People earning minimum wage on Universal Credit can pay some of the highest effective marginal taxes in the UK. That's despite making work pay being one of the fundamental features of Universal Credit - though it does a better and less confusing job in this respect than its legacy predecessors.

Universal Credit payments are tapered for every £1 you earn over a certain amount. The current rate is 55%, meaning that for every £1 you earn, your Universal Credit reduces by 55p. This is effectively a tax on income. And it's higher than almost every other tax in the UK, pipping inheritance tax at 40% and the highest rate of income tax at 45%. But it doesn't stop there.

Our research shows that the rate of tax for some workers is currently more like 80%. That's the effective rate for a single parent working on Universal Credit at the minimum wage with a one-year old child. Increasing their hours from 30 to 34 hours would, once you take into account the taper rate and increased childcare costs, increase their income by just £38 - or about £2 per hour. Indeed, one of the main ways that the state benefits from increasing the minimum wage is through decreasing welfare payments. A significant increase in wages can work out as a much lower increase in incomes.

It's tempting to conclude here with a familiar solution: of course the poorest in society shouldn't be facing higher marginal tax rates than many of the richest in society; surely if we can endorse any principle it should be that one. If you're working minimum wage, the state shouldn't be skimming so much off the top. And, on an important principled level, that's right.

But I am cautious about reaching that conclusion too quickly. Under the legacy system that Universal Credit has been replacing, it was possible to face in excess of 90% in marginal taxes. Universal Credit largely fixed that problem - a single taper rate of 55% genuinely makes the working poor much better off.

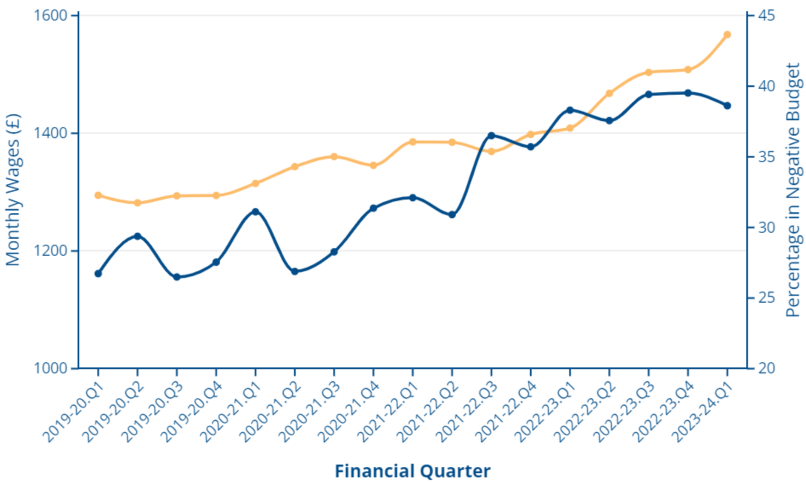
But prior to 2019, benefit rates were drastically cut, for the working and workless poor alike. There's an as inevitable trade off here as there is when seriously discussing universal basic incomes. Within a fixed budget, you can help the poorest workers keep more of their minimum wage increases or you can target support to the very poorest. You can't necessarily do both.

You can see that starkly in the IFS's analysis of the 2021 decision to cut Universal Credit by £20 a week and decrease the taper rate instead. Every pound spent on the £20 a week uplift was 40% more effective at tackling poverty than the changes to the taper rate and how much you could earn before it was applied.

It's a terrible choice to make. It used to be the case that people who came to us in a negative budget were mostly those worst affected by the 2010s benefit cuts. Things have got worse for them since, but we're seeing more and more part-time and full-time low paid workers pulled under as well.

But that doesn't remove the fact that you need to make that choice in the short term as a new government. Our data gives as close to a live pulse of the nation's problems as you are likely to get. And it strongly suggests that higher minimum wages and targeted support for the poorest is the best mix for helping people out of this crisis.

But ultimately, we've got to move beyond a world where the trade offs are this stark. That means building support and consent for a benefits system the public are proud of. And it goes without saying that these trade offs diminish as the economy grows. That's why the real focus of a new government should be on growing the economy - the only acid that can really dissolve some of these trade-offs and sustain a more generous safety net.



Among debt clients in full-time employment.

CHAPTER 11.

Implications of £15 an hour for poverty and inequality: why any push for reduced labour market inequality should be accompanied by broader efforts to reduce income gaps between working and non-working households

Becky Milne & Dan Tomlinson,
Joseph Rowntree Foundation

The National Living Wage has been a success to-date, and it should certainly be increased higher still. Other essays have discussed the reasons in favour of a higher minimum, but in this chapter we explore the impact that such a change would have on the distribution of household incomes, inequality, and the disparity between working and non-working households. We use illustrative modelling to assess the potential impact of a £15 an hour wage floor on the UK income distribution. The majority of those who benefit from a higher minimum are in middle-to-high income households, namely because they are households that contain at least one working adult. As such, a higher wage floor would, we expect, increase household income inequality through widening the already large gap between living standards of working and non-working households.

This is not an argument against a higher minimum, after all we also find that – unsurprisingly – the poverty rate among workers on the National Living Wage (NLW) will fall if it is increased, but it is to sound a note of caution. Unless a higher minimum wage is accompanied by increases in financial support for those not working and renewed efforts to support more of those not in employment into work, a minimum wage-led push for a more equal country will leave some families falling further behind the rest of the pack. To that end, we reiterate here JRF's call for an Essentials Guarantee, which would help families both in work and out of work have enough to afford the essentials. We also offer some optimism that policies to improve the living standards of those out of work are more feasible in a higher minimum wage world, as a higher wage floor opens up the space for higher benefits without running the risk of disincentive effects limiting moves into work.

The poverty rate among NLW earners is heavily determined by the economic status of other adults in their household. As Table 1 shows, we estimate 60% of people on the NLW live in households where another adult is working and earning more than the minimum.[1] Among this group our modelling suggests the poverty rate is just 7%. By contrast, the poverty rate among the third of NLW workers with no other earners in their household is 33%, higher than the overall working-age poverty rate of 19%. In general, a single person without children working full time for the NLW is very likely to have enough income after tax to be above the poverty line. NLW workers in poverty are therefore nearly always those who work part time, have high housing costs, or who share a household with part-time or non-workers and/or children.[2]

Table 1: Composition of NLW worker population and their poverty rates, by household composition

Household composition	Percentage of NLW workers who fall into this group	Percentage of NLW workers in this group who live in a household in poverty
NLW worker with other adults earning more than the NLW per hour	60%	7%
NLW worker living with other adults earning the NLW	7%	12%
NLW worker with no other adults in work	33%	33%

Source: JRF modelling of household incomes in April 2024 based on the Family Resources Survey 2021-22 using the IPPR Tax-Benefit Model v02_59. Poverty defined as being below 60% of the median household income after housing costs are deducted.

But what would happen to poverty rates for those earning the minimum if the NLW were to increase to £15 an hour? This is, quite obviously, very difficult to model precisely given necessary judgement calls on the ripple effects up the earnings distribution and the impact on employment and inflation. It is, however, possible to produce an illustrative estimate of the impact through simply assuming that anyone who would otherwise be paid below £15 an hour would have their pay increased to this level.[3] We apply this assumption to our estimate of the April 2024 income distribution and compare this scenario to the impact of the expected rise in the NLW to £10.80.[4]

We find that the percentage of NLW workers in poverty would fall to 11% if the NLW were to be £15, compared to a 16% poverty rate with a £10.80 wage floor. Similarly, the percentage of people in poverty in households where someone earns minimum wage would also reduce to 14%, compared to 18% if the NLW were to be uprated to £10.80.

Figure 1 shows how we would anticipate NLW workers to be spread across the household income distribution under these two scenarios. The left hand panel shows that with a £10.80 wage floor, 15% of NLW workers would be in the bottom two deciles of the income distribution, and that this would fall to 10% under a £15 an hour NLW. This is a reasonably big reduction, as a higher minimum wage shifts those receiving it further up the income distribution.[5] As can also be seen in Figure 1, under these crude modelling assumptions, the share of NLW workers in the top half of the household income distribution would increase from 50% in a £10.80 scenario to 59% in a £15 an hour scenario.

Figure 1: Percentage of NLW workers in each household income decile in April 2024, £10.80 NLW (left chart) & £15 NLW (right chart).

Source: JRF modelling of household incomes in April 2024 based on the Family Resources Survey 2021-22 using the IPPR Tax-Benefit Model v02_59. Poverty defined as being below 60% of the median household income after housing costs are deducted.

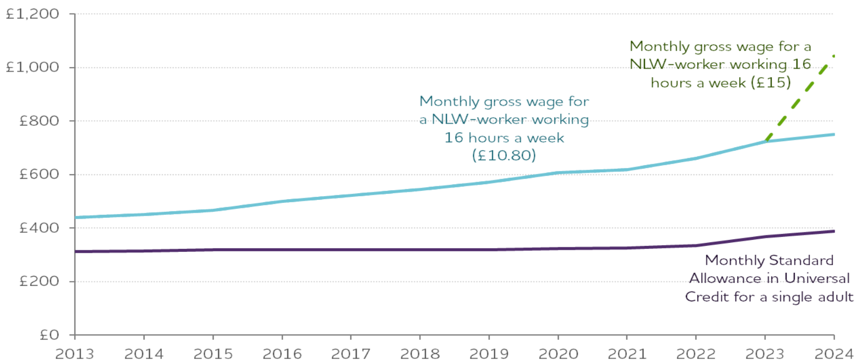
The NLW directly benefits employees and other people in their households, but it also has a strong bearing on the living standards of the low-income self-employed. This is because it is used within Universal Credit to set the minimum income floor (MIF) for self-employed UC claimants. A sudden increase in the NLW would be unlikely to increase the wages of self-employed workers immediately (although over time it may do so as the labour market adjusts) and it's therefore highly likely that some self-employed workers claiming UC would see an overnight reduction in their UC without a corresponding increase to their earnings. Our illustrative modelling suggests this could affect as many as 40% of self-employed workers in receipt of Universal Credit.

More broadly, a higher NLW will lead to a wider income gap between working and non-working families and act to push up inequality. To illustrate this point: our modelling suggests that the median monthly income (after housing costs) of a working household in April 2024 would increase by £260 a month as a result of a £15 an hour NLW. Assuming the monthly income for a non-working household remains the same, this would widen further the gap between working and non-working households which we already estimate to be around £2,000. Inequality between the non-working and the employed is already high, and a higher minimum wage would only exacerbate these divides.

Of course, this is not an argument against increasing pay for the lowest-paid, but it is to say that unless accompanied by broader changes to the support for non-working households, we risk leaving some families even further behind the pack in the UK and increasing the size of the already large income falls that those workers who lose or leave their jobs suffer.

The good news here, though, is that a higher minimum wage acts to make it more possible to take the policy action required on out of work benefits without the risk of large disincentive effects. Stepping back, higher levels of out of work benefits can affect GDP through two channels: labour market participation rates and productivity rates. Labour market participation can be lower if people opt to spend more time not in work because they have a higher income, but this can also have positive productivity effects in so far as it helps people and employers match more effectively with the right job, or else take risks that lead to future economic reward. The overall effect of higher unemployment benefits on the economy depends on the relative size of these two channels. All else being equal, a higher minimum wage dampens negative participation effects from higher social security payments and therefore increases the scope for net positive effects overall via productivity gains. This scope has been increasing over the last 10 years, but would increase dramatically if the NLW was to jump up to £15 an hour, as Figure 2 shows.

Figure 2: Comparison of monthly gross wage for an NLW-worker working 16 hours a week with the monthly Standard Allowance in Universal Credit



Notes: Data on previous NLW rates taken from https://www.nibusinessinfo.co.uk/content/national-minimum-wage-previous-rates

This gap between the living standards of working and non-working families, which would grow much further with a rapid increase in the NLW, is why any strategy to reduce inequality via increasing the wage floor should be accompanied by a focus on the living standards and prospects of those out of work. This should involve a renewed focus on supporting those who can work and want to work into employment. But crucially, it should also involve increases in financial support for those not currently able to work (or work enough hours). JRF has advocated an Essentials Guarantee, which would embed a protected minimum within Universal Credit, based on what is needed to cover essentials such as food and utilities, helping to ensure that all families can always at least afford essentials. Given a higher NLW would generate additional tax revenues and reduce spending on in-work benefits, it could very well be complementary to the introduction of an Essentials Guarantee or policies targeted more closely at the non-working.

To conclude, the continued push for a more equal labour market via a higher minimum wage is welcome. But it shouldn't be forgotten that it has implications for the nature and extent of inequality in the UK. Yes, it will reduce labour market inequalities, but it will also widen the already large gap between working and non-working households. For this reason, any move to a £15 an hour NLW should be accompanied by more support for those not in employment so that household income gaps can be narrowed alongside continued closing of individual earnings gaps.

1 We define NLW workers here as those with hourly pay (recorded or estimated) within 5p of the National Living Wage.

2 Based on anticipated tax and benefit policy in April 2024, using a modelled poverty line defined as 60% of 'before housing costs' (BHC) incomes (i.e. excludes the impact of housing costs). Modelled using the IPPR Tax-Benefit Model v02_59.

3 The Low Pay Commission estimates that there were around 1.6 million workers paid at or below the minimum wage in April 2022. Our modelling is based on the Family Resources Survey which is known to over-estimate working hours and under-estimate pay due to errors in self-reporting. We therefore do not publish estimates here of the numbers of people affected by increases in the NLW, and instead focus on comparisons of the impact of different sized increases in the NLW.

4 £10.80 was the OBR's previous estimate of the level of the NLW in April 2024. OBR, Economic and Fiscal Outlook, March 2023.

5 For the analysis in this paper we've used the IPPR Tax-Benefit Model to uprate 2021-22 Family Resources Survey data on household incomes to April 2024. This involves applying a combination of OBR economic projections, published information on anticipated tax and benefit policies, and assumptions on benefit uprating based on previous years' practices. We change wages such that no-one aged 21 or older is earning less than £10.80 an hour in the base scenario and £15 an hour in the counterfactual. Under-21s minimum wages are uprated proportionately, before applying tax-benefit policy. For further information on the methodology please get in touch with the authors.

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