

THE LABOUR MARKET, THE MINIMUM WAGE AND THE LOW PAY  
COMMISSION REPORT

ESRC Centre for Business Research, University of Cambridge  
Working Paper No. 110

Sanjiv Sachdev  
ESRC Centre for Business Research  
University of Cambridge  
Austin Robinson Building  
Sidgwick Avenue  
Cambridge  
CB3 9DE

Phone: 01223 335286  
Fax: 01223 335768  
E-Mail: [ss298@econ.cam.ac.uk](mailto:ss298@econ.cam.ac.uk)

Frank Wilkinson  
ESRC Centre for Business Research  
Department of Economics  
University of Cambridge  
Austin Robinson Building  
Sidgwick Avenue  
Cambridge CB3 9DE

Phone: 01223 335262  
Fax: 01223 335768  
E-Mail: [sfw11@econ.cam.ac.uk](mailto:sfw11@econ.cam.ac.uk)

December 1998

This Working Paper relates to the CBR Research Programme on Corporate  
Governance, Contracts and Incentives

## Abstract

This paper examines arguments surrounding the minimum wage, considers the Low Pay Commission report and its potential impact. It challenges the orthodox view of the labour market including the view that low pay reflects the low skill and poor work attitudes of workers. It argues that "Skill" is partially socially determined; low paid workers are not low paid because they lack skill, but because their skills are not recognised or valued. It follows that there is a need for a concerted effort to increase the number of good jobs; the minimum wage can be used as part of a broader package of reforms to counter the undervaluation of jobs.

The paper considers the Low Pay Commission Report and the government's response to it. It argues that there is undue caution in the report and a serious omission. In particular, there is an examination of the issue of uprating the minimum wage, the problems that arise in the absence of an adequate mechanism,

The growth of low pay since the late 1970s has led to high levels of labour market instability. The costs of such instability, include very high rates of turnover and dramatic shifts in the number of vacancies in low paying sectors, as economic conditions change. The paper explores business attitudes to the minimum wage and the likely business response to its implementation such as the reorganisation of pay packages.

There has been a growing realisation of the dynamic benefits of a minimum wage; a recurring theme since the late nineteenth century in economic debate over low pay eradication and its consequences. It has been repeatedly argued is that work should pay a living wage and that this will be a spur to better management, technology, training and organisation of work.

Further information about the ESRC Centre for Business Research can be found on the World Wide Web at the following address: <http://www.cbr.cam.ac.uk>

# THE LABOUR MARKET, THE MINIMUM WAGE AND THE LOW PAY COMMISSION REPORT

## 1. Introduction

*“The rise in wage inequality since the late 1970s in the UK has been among the fastest of all developed countries” HM Treasury 1997.*

In April 1999 Britain will introduce a minimum wage of £3.60 an hour for those aged 22 or more, and of £3 for 18 to 21 year olds. Workers aged 22 or more, starting a new job with a new employer and receiving accredited training will receive £3.20 for a period of six months. These rates will directly affect 9% of the workforce, some 1.9 million workers, three-quarters of whom are women and 1.3 million of whom are part-time workers.

At the turn of the century the social reformer, Charles Booth, stated one of the key principles of the minimum wage, namely that “... *where there is industry there ought to be no poverty*” (Morris, 1986), work should pay a living wage. Sixty years ago the socialist economist G.D.H. Cole declared that “*the most urgent of all social reforms is the extension of the guaranteed minimum wage*” (Cole, 1938). Although the century long argument for the principle of a national minimum wage has been won, the case for a higher minimum wage as part of a broader strategy for innovation, training, management and organisation of work still needs to be made.

This paper examines arguments surrounding the minimum wage, considers the Low Pay Commission report and its potential impact. It challenges the orthodox view of the labour market including the view that low pay reflects the low skill and poor work attitudes of workers. Instead, it argues that the labour market is segmented by power relations that determine the structure of pay and job opportunities. Low pay is mainly an outcome of the undervaluation of work. Low paid workers are not low paid because they lack skill, but because

their skills are not recognised or valued. It follows that there is a need for a concerted effort to increase the number of good jobs; the minimum wage can be used as part of a broader package of reforms to counter the undervaluation of jobs.

The arguments develop many of those made in the Low Pay Commission report. Our criticism would primarily be that the Low Pay Commission failed to follow through their analysis in their policy proposals, interpreting “prudence” as a reason for not challenging, in the short term, the labour market structures they observed and left unaddressed how they may be tackled in the long run.

## **2. The Rise of Low Pay**

*“Of late years the evil of low wages has become increasingly prominent. While the wealth of the country has increased enormously, a mass of unorganised workers still live miserably upon a mere pittance”* The Women’s Industrial Committee 1908

The minimum wage is a response to the dramatic growth in the numbers of working poor and the sharp rise in inequality. The proportion of people with incomes below half the average rose from 6% in 1977 to 18% in the 1994/5 (Hills, 1998). In 1997 one in five workers in Britain earned less than £4.00 an hour; one in four earned less than £4.50 (Wilkinson D., 1998). Between 1993 and 1997 real hourly entry wages have fallen from £4.35 to £4.02 - a fall of 8% or 2% a year (Employment Audit, 1998). For many workers, the key benefit of a reasonable minimum wage would be to restore some of what was lost over the previous twenty years. The minimum wage is also a less dramatic break than is sometimes suggested, as it brings Britain into line with most of the advanced capitalist countries in having some form of minimum wage provision.

The New Earnings Survey (NES), while understating the extent of low pay (as it under-represents workers not covered by Pay-As-You-

Earn), shows the extent to which the distribution of earnings has widened in the past two decades. For example, in 1979 the lower quartile weekly earnings, as a percentage of their respective medians, were 80% for full time male workers and 82% for full-time female workers; by 1997 these figures had fallen to 73% and 75%.

The widening spread of earnings can be explained by three main factors. Firstly, the decline in employment in manufacturing and in other non-service sectors was mainly concentrated in the middle range of the earnings. Secondly, increases in employment were concentrated in sectors such as banking, insurance and finance where earnings are relatively high and in hotel, catering and other such services where earnings tend to be low. The disappearance of jobs from the middle of the earnings distribution and the increase at each end helps explain the changing structure of earnings. The third factor explaining the widening dispersion of earnings is the relatively slow growth in the earnings of the lowest paid.

To disentangle the effect of the slow growth of low pay from the changing structure of employment, earnings series for low paid occupations were constructed. These calculated an unweighted mean of the medians of the full-time earnings of a sample of low paid occupations included in the NES. The criterion for including an occupation is that, in 1990 20% or more of the full-time workers employed in the occupation had hourly earnings of less than £3.20 an hour. Occupations were reclassified for the 1991 NES. The occupations included in the low pay occupations earnings series for 1991 onwards are those which appear to cover the same occupational areas of employment as those included for 1990 and before. The changing relationship between the earnings of the low paid male and female occupations and median earnings for all male occupations between 1973 and 1997 are shown in Figure 1. The trend in the earnings of low paid female occupations is given by the unbroken line and that for low paid male occupations by the marked line. The trend

in the median earnings for all female occupations relative to that of males (the dotted line) is also included.

As a percentage of median earnings, low paid male occupational earnings stood at 74% in 1979. From 1979 the relative earnings in low paid occupations declined; by 1997 it had fallen to 59% of median earnings. The earnings of low paid female occupations improved relative to male median earnings during the 1970s, rising from 54% to 63% between 1973 and 1978. From 1979 this relative improvement was reversed; by 1997 earnings in low paid female occupations were once again 54% of median male earnings. In contrast, median female earnings continued to increase relative to median male earnings after a setback in the late 1970s. From 1979 median female earnings resumed their growth relative to median male earnings and by 1997 had reached 83%.

The divergence between the low paid female occupations and median female earnings for all occupations shown in Figure 1 indicates the widening of differentials in female earnings. As a percentage of female median earnings, the earnings of women in low paid occupations peaked at 87% in 1975 but had fallen to 66% by 1997.

Thus, when compared with median earning levels for their gender, men and women in low paid occupations had by 1996 lost, on average, around 20 percentage points since 1975. Nevertheless, the earnings of females in low paid occupations were increasing relative to men in low paid occupations (indicated by the convergence of the two lower curves in Figure 1). And, relative to male earnings, female median earnings (the dotted line in Figure 1) are rising, whereas for low paid occupations male earnings were falling towards those of low paid women, which were declining relatively to median male earnings. Figure 1 thus confirms the decline in relative earnings of males in low paid occupations shown by Gosling, Machin and Meghir and also indicates the extent of the relative decline in the earnings of low paid women.

It is possible, using the NES data, to track the changing proportions of individuals in different occupations who would have been affected by a minimum wage set at a particular point in the earnings distribution. Table 1A shows the changing percentage of earnings of full-time women workers in the low paid occupations used in the above analysis with less than (approximately) 70% of the median earnings of full-time females in 1979 and 1990 and Table 1B repeats this exercise for 1991 and 1996. From 1979 to 1990, the proportion of workers with earnings below 70% of median earnings grew by around 4.7%; between 1991 and 1996 a further 3.5% was added. For most of the low paid occupations the increase was greater than 20% from 1979 to 1990 and more than 10% from 1991 to 1996. Put another way, the key benefit of a minimum wage for many workers is to restore some of what was lost over the past 20 years.

### **3. The Low Pay Commission report: an Evaluation**

*“Low pay increases employee turnover and therefore deters investment in training. It is bad economics” Tony Blair MP*

#### **3.1. Caution and a low minimum wage.**

The Low Pay Commission (LPC) report, drawing from a wide range of sources, tackles complex and difficult issues. It provides a comprehensive picture of the low pay problem in Britain today. The examples of low pay it cites include a “*very experienced*” umbrella worker who earned as little as 37 pence an hour; a security guard earning £1.25 an hour (the job-holder had to pay for the uniform) and a warehouse worker on £1.70 an hour. Pay rates in the childcare sector were among the lowest, with a rate of £2 an hour found to be “*not unusual*” (Low Pay Commission, 1998).

The report is cautious and conservative (the word “*prudent*” recurs repeatedly). Seeking to make “*a difference to the low paid while minimising burdens to business*”, it tackles “*the worst cases of*

*exploitation*". The proposed minimum wage's impact on most sectors is minimal. Only in exceptionally low paying sectors of security, cleaning, hairdressing, hospitality, agriculture, clothing and footwear, and social care will it have a significant impact. Firms such as McDonalds, where nearly 70% of its staff are aged 20 or under, are not dramatically affected; neither is Burger King 75% of its staff are aged between 16 and 21 (Income Data Services, July 1998). The LPC explicitly rejects a higher (how much higher is left vague) minimum wage as it would "*not help low paid workers that their jobs are put at risk, or they have to pay a lot more for goods and services*". However, according to the OECD "*... countries with higher minimum wage rates relative to the median have less earnings dispersion and a lower incidence of low pay*" (OECD, June 1998). Britain has not, at least as yet, followed such an approach.

The £3.60 figure is a marked retreat from past commitments. In 1992 the Labour Party was committed a minimum wage of £3.40 (£4.60 at 1998 wage levels). The new level is below the £3.85 figure that arises if the former Wages Councils rates are uprated (by median earnings from the mid-1980s). The minimum wage covers 700,000 fewer workers than the Wages Councils did prior to their abolition in 1993. According to the LPC's own data, it is worth less than the United States minimum wage (valued at £3.67 in 1997 compared to a £3.40/£2.80 value for the UK proposal in 1997) which in turn is described as being "*relatively low*" by the OECD (OECD, June 1998). The contrast with the Irish Low Pay Commission is even more striking; they recommended a rate of £4.40 (Punt), affecting 23% of the workforce compared to 9% in the UK and adding 4% to the wage bill, compared to 0.6% in the UK. Instead, as it stands, there is a real risk that a low minimum wage could actually entrench low pay, driving down earnings in low paying sectors. It could legitimate low pay in public contracting, undermining higher rates set for the directly employed workers who compete with private sector firms.



The dilution of the reports findings, following the intervention of the Treasury, reduced its coverage by some 90,000 workers. These changes were in part an assertion of power by the Treasury to set a precedent that it can and will alter the findings of the LPC if it so wishes. The extension of the “development rate” is especially punitive; apart from the Netherlands, which has a relatively high minimum wage, no other advanced country has a lower minimum wage rate for those aged more than 21. Indeed, the LPC argued that “*an age differential beyond 20 was generally seen as an unwelcome and unnecessary complication*”. The government will now introduce just such a complication. The £3.60/£3.20 LPC recommendations were the “*initial rate,*” due to rise to £3.70/£3.30 in the year 2000. The Treasury’s intervention meant that they have become the final rate (the “*development rate*” will rise to £3.20 in June 2000). These changes also reflect a Treasury fear that the minimum wage could prove inflationary. The absence of any indexing mechanism (see below) is a consequence of this fear.

### **3.2. Maintaining the value of a minimum wage: an uprating mechanism.**

*“To achieve the goal of making work pay, the minimum [wage] should be raised and then indexed”* memo to the US President from Labor Secretary Robert Reich 20 July 1993.

Nearly as important as the level of the minimum wage is the means by which it is uprated. The LPC report is detailed and thorough in its examination of the many issues surrounding the minimum wage. Thus it is all the more surprising that it examines the issue of uprating in a relatively cursory way, stating that the minimum wage needs to be “*periodically reviewed*”, initially within two years of its introduction (it recognises that the minimum wage must not be allowed to “*wither on the vine*”). An uprating mechanism that maintains the value of a minimum wage is needed. Without it, the value of the minimum wage will fall over time. The indexation of national minimum wages was a

feature of minimum wages early in the century; it began almost simultaneously in Australia and New Zealand in 1914. The 1969 government inquiry into the minimum wage stated: "*The continuing usefulness of a national minimum wage would depend to a large extent upon the effectiveness of the arrangements made for adjusting the level from time to time*" (Department of Employment and Productivity, 1969).

### **3.3. The US experience; the need for an updating mechanism**

Failure to update it in the US meant that the percentage of hourly paid workers earning the minimum wage fell by two thirds between 1980 and 1990, from 15.1% to 5.1% in 1990. As a percentage of average annual hourly wages, from a peak of 56.1% in 1968, it stood at 47.1% in 1979; by 1997, following increases in 1980, 1981, 1990, 1991, 1996 and 1997 it was just 42.3% (Levin-Waldman, 1998). The OECD notes that the decline in its value "*reflects the fact that the Federal minimum is fixed in nominal terms and adjusted irregularly*" (OECD, June 1998). The decline in its value also contributed to growing income inequality. As Levin-Waldman says of the US minimum wage "*... each time it is discovered that the wage is no longer adequate, the issue must once again be acted on by Congress. That an increase in the wage requires an act of Congress means that the legitimacy of the wage can be revisited, and the same arguments constantly rehearsed. Invariably, by the time the wage is acted on, the increase is too little and too late to be of any real benefit*" (Levin-Waldman, 1997).

Any potential increase is the subject of intense political lobbying (thus the Wall Street Journal reported that "*Lobbyists for small businesses, retailers and big companies huddled at the Washington office of the National Restaurant Association to plot strategy against the Clinton effort to boost the £4.25 per hour minimum wage*"). The electoral cycle is a more important factor in any increase than the needs of working families. Robert Reich, the former US Secretary of Labour, described the failure of the US minimum wage to have an index

mechanism as Washington's "*dirty little secret*" arguing that "*Politicians don't want the minimum wage to be indexed because they like to fight over it. Democrats want to show their constituents, like labor, how hard they fight to raise the minimum wage. Republicans want to show their constituents, like small business, how hard they fight to prevent it from rising too much*" (Reich, 1998). (New Labour, which otherwise has little to offer the trade unions, might find the recurrent carrot of minimum wage increases a useful means a gathering luke-warm trade union support).

Reich and his predecessor in the Carter administration, Ray Marshall, attempted to build in an index mechanism to the minimum wage (the former proposed, in 1993, to raise the minimum by 25 cents to 50 cents an hour and then index it to the cost of living, the latter, in 1977, proposed a flat increase of 8.7% and then indexation fixed at 50% of straight-time hourly earnings of production and nonsupervisory workers in manufacturing). Indexing was also considered by Senator Taft in 1949 (Levitan and Belous, 1979). A majority of the US House Education and Labor Committee favoured the addition of indexing, holding that it was unfair for those working poor dependent on minimum wages to see their wages held captive to the whims of the political process which inevitably had to satisfy the diversity of interest groups. They viewed the periodical legislative review as being "*highly irregular and frequently chaotic*", delaying necessary action and creating frustrations for low paid workers (Education and Labour Committee, 1977). Subsequently the White House came to support this view, only for it to founder in Congress.

Moreover, the "shock" of minimum wage increases is greater in the US than under a more gradual indexing approach (though tempered by a staging of any increase), as there is a need for a significant hike to compensate for the erosion in its value over several years rather than just one. Thus the increases of 1990/91, though staged, were a 27% increase (from \$3.35 to \$4.25). Furthermore, there is tentative, mixed evidence from the US that the lack of a mechanism builds in

instability and uncertainty into the stock market (Card and Kruger, 1994). Stock exchange prices for low paying firms in the United States may fluctuate, with speculation/ proposals to raise the minimum wage. The virtue of an uprating mechanism is that it should be reasonably predictable, enabling firms to anticipate and plan ahead. In the words of the US House Committee on Labor and Education “*a series of smaller increases, instead of erratic major increases, provide greater stability to the wage setting process*” (Education and Labour Committee, 1977). Without it, low paying firms, already subject to significant instability, could be subject to greater uncertainty still.

### **3.4. The nature of an uprating mechanism**

The nature of the uprating mechanism is also important. As Gosling notes: “*A minimum wage tied to prices in 1975, for example, would have done nothing to halt the increase in earnings inequality over the last 20 years*” (Gosling, 1996). The fate of the state pension is instructive, linked as it is only to price. Similarly, if the US minimum wage had been adjusted to changes in the cost of living since its inception in 1938, the wage floor would have been only about 55% of its 1977 level (Levitan and Belous, 1979). It has been argued that tying minimum wage rates to increases only in the cost of living would defeat the very purpose of indexing the wage floor - to protect the earnings of low paid workers not only from inflation but also in relation to those of more highly paid workers.

Any index should protect the relative standing of minimum wage workers compared to others in the labour market. The strength of the UK formula “half male median earnings”, as advocated by the TUC, is that it provides an automatic means of ensuring that the value of the minimum wage does not diminish. Furthermore, the pressures from lobbying are diminished and the ensuing incremental increases lessens the “shock” of any increase to business. The French minimum wage,

the “salarie minimum interprofessionnel de croissance” (SMIC) shares this virtue.

### **3.5. Minimum wages and in-work benefits**

The OECD notes that countries with “*relatively low minimum wages, such as the United States, complement them with subsidies in the form of in-work benefits*” (OECD, June 1998). Britain seems set to follow a similar path. The government maintains that the Working Families Tax Credit (WFTC) will guarantee an income of at least £180 a week “*for families working full time*”. It argues that when combined with the WFTC and other benefits, for a one earner couple with two children, “*this means an effective wage of more than £7 an hour*” (Beckett, 1998). For such families the minimum wage provides little more than half the hourly income.

### **4. Why are the Low Paid, Low Paid?**

“... *the worst examples... [of low pay] occur fully as much in prosperous as in depressed trades or areas, and are due more often to lack of bargaining power than to personal defects or the inability of employers to pay a living wage*” G. D. H. Cole 1938.

There is a near consensus that the problem of low pay/inequality is simply a skills problem. In the words of the LPC report they are in “*low-skilled and therefore low-paid occupations*”. It follows from this that earning power of individuals can only be raised if their skills and work attitudes are improved. In making this argument, the level of pay is used as the main measure of how much a worker is worth; little or no evidence is evinced as to the content of workers’ jobs or how well they are performed. Thus we are presented with an argument of impregnable circularity in which the outcome - low pay - is the evidence for the alleged cause - low skill and personal inadequacies.

Education and training is prescribed as a universal panacea; it is argued that if skills are improved, earnings will follow. This analysis follows the conventions of free market economics. If relative wages are falling, it must be because the relative value of workers human capital has also declined. This reasoning is seriously flawed as it ignores the question of power in the labour market. Low pay is mainly a result of the low value placed on the skills and experience of disadvantaged workers rather than to personal shortcomings. "Skill" is, crucially, socially determined; low paid workers are not low paid mainly because they lack skill, but because their skills are not valued or recognised. For example, child carers are expected to be highly skilled, yet over 60% of female, full time carers earn less than £4 an hour. Years of formal education and training may help to explain the relative high pay and job attainment among white males but the returns to human capital investment are much lower for females and for racial minorities and, in the lower strata of the labour market, the wage benefits from education and training are very small. Women are typically employed in part-time jobs with significantly lower pay than those for which they are qualified. Furthermore, the human capital approach concentrates on the educational attainments of individuals and pays little attention to skills acquired outside the formal education and training system, or to what jobs require in terms of personal characteristics. When the content of jobs in this broader sense is examined, it is found that many of the lowest paying jobs require significantly more skill, and carry much more responsibility than more highly rated jobs (Horrell, Rubery and Burchell, 1990).

In reality *skill* is a social categorisation; low pay is most generally found in jobs which are socially downgraded. Skills associated with domestic work or the servant "classes" - caring, serving, cleaning, cooking, household and office management - and usually performed by women, are afforded low status. Certain manufacturing occupations - sewing machine operators, fine assembly work, food preparation - are regarded as being women's work, or requiring feminine traits (nimbleness of fingers, the capacity to absorb boredom

etc.) which are assessed as having little value. Skills originating in land work and required for agriculture, gardening, road mending are also given little social recognition and are paid accordingly (Wilkinson, 1981).

A detailed examination of job content rather than social categorisation usually reveals the extent of undervaluation of jobs. Julie Hayward, a cook who was classified as semi-skilled despite having undergone the same period of training as male workers who were rated as skilled, legally established her right to pay equal to that of male painters and joiners after a campaign which took her to the House of Lords (Wilborn, 1989). A careful job evaluation of local authority manual workers, which placed home helps very high in the wage scale, described their jobs in the following way:

*“The major features of the job are the high level of skill and responsibility for people entailed, but it should also be noted that there was a higher degree of initiative, mental and physical effort than in many other jobs. The home help, as is shown in the job outline, requires a wide range of acquired skills to be able to undertake the job. The responsibility of people that the job carries is an individual responsibility, in that the Home Help is more often than not in the client’s home alone. This distinguishes it from many jobs. Few carry such a responsibility and this more than any other feature was the determinant in the relatively high level of the Home Helps’ score”* (National Joint Council for Local Authority Service, 1987).

A study of women’s employment in small firms revealed that *“relatively disadvantaged groups ... in receipt of low wages have considerable levels of skill acquired through on-the-job training, and undertake work which makes heavy demands on the workers: for example work requiring considerable expertise, intense concentration, the undertaking of repetitive tasks at high speeds, or tolerance of unpleasant working conditions”* (Craig, Garnsey and Rubery, 1985).

Further evidence of discrimination is revealed by a detailed survey of the content of a wide range of jobs which took into account knowledge and skills acquired both by formal training and by experience; social and caring skills; and the degrees of responsibilities and discretion required. The results of this survey showed that differences in skill explained 25% of the wage gap between men and women, but 75% of the difference was accounted for by differential pay for similar skill levels, a finding confirmed by Lissenburgh's exhaustive analysis (Horrell, Rubery and Burchell, 1990; Lissenburgh, 1995).

The growing spread of low pay arises partly through an imbalance in bargaining power, reflecting low-wage strategies by employers, discrimination against women and members of ethnic minorities, government efforts to weaken labour market institutions (such as employment rights, trade unions and wage councils). These reinforcing labour market disadvantages are exacerbated by the difficulty the low paid have in establishing or being effectively represented by trade unions. Only 28% of female workers, 20% of part-time workers and 16% of workers employed in firms with fewer than 25 employees are in trade unions. Catering, cleaning and personal services, agricultural, selling and clerical occupations all have low union densities: 11% in wholesale and retailing, 8% in agriculture, forestry and fishing and 7% in hotels and restaurants, compared to an average of 30% for all sectors (Cully and Woodland, 1998).

Growing numbers of workers with low wages reflect neither major skill shifts nor the use of new technologies. Most indicators suggest workers are in fact becoming better educated. To stress training as a cure-all is to cultivate a workforce that is overqualified and undercompensated. The roots of social and economic disadvantage are found not in the differing capacities of individuals, but in market inequalities. In particular, relationships in the labour market are



permeated by inequalities of bargaining power, structural barriers to mobility and by institutionalised discrimination, which together leads to the systematic *undervaluation* of the labour of disadvantaged groups. Whether or not there is an 'ideally' efficient free labour market system which can be theoretically modelled is of little relevance to the formulation of policy in a world where the distribution of income and economic opportunities is largely determined by power relationships and institutional forces.

## **5. Deregulation and the Reshaping of the Labour Market**

*"We do not regard cheap labour as an unfair trading practice but rather as utilisation of comparative advantage".* Leon Brittan, former Trade and Industry Secretary of State

*"A Citizen's Advice Bureau in Yorkshire reported a woman who had worked as an apprentice for over two years. She worked a 43 hour week, for which she earned £50. She had recently passed her exams but her employer was claiming that she needed more training, and so she stayed on the same conditions."* National Association of Citizens Advice Bureaux 1997

Unemployment, deregulation, privatisation and other measures which rendered the labour market more "flexible", had a disproportionate effect on the lower segments of the labour market, where trade unions are weakest, legal enforceable labour standards were more important and where the bargaining strength of workers is more dependent on the pressure of demand in the labour market. Wage Councils, which set sectoral minimum wages, were officially deemed to be *"unnecessary obstacles to the creation of more jobs"* (Department of Employment, 1985) and were first weakened (1986), and then abolished (1993). Trade unions were constrained and weakened by an extensive array of legislation. Concurrently, high unemployment generated by macro-economic policy increased the numbers competing for low paid jobs. Their ranks have been swollen by

workers displaced from previously more favoured segments of the labour market, while the loss of manufacturing jobs with accelerating de-industrialization severely curtailed the possibilities of escape into better paying jobs. People were increasingly pressed into accepting low pay and poor working conditions by cuts in benefits, increasingly strict limits on eligibility for unemployment pay and by cuts in students grants. This *crowding* in of the low paying segments of the labour market has been intensified by the growing pressure of poverty on families.

Meanwhile, wage subsidisation, either directly to employers and indirectly in the form of in-work benefits, has been enacted to encourage the take up of low paid jobs. This has added to the downward pressure on the terms and conditions of employment.

On the demand side, many employers were pro-active in and responsive to the political and legal reconstitution of the labour market. They have been encouraged in this by legislation, including compulsory competitive tendering, market testing and the abolition of the Fair Wages Resolution, the development of which has seen business play a leading role:

*The strategy employed by the major contractors to gain a foothold in the public sector has been both simple and successful. Unlike the unions, who have devoted tremendous effort to mobilise public opinion, the contractors have directed their lobbying efforts exclusively at the political decision makers, particularly those at the national level. Their campaign has been low key often operating behind closed ministerial doors, and virtually invisible to those outside the mainstream Conservative Party politics. Four aspects of this lobbying campaign are of particular interest: trade association activity, Conservative activists in the service industry, direct lobbying of Parliament, and corporate links with the Conservative Party (Ascher, 1987).*

## 5.1. Reconstitution in practice: contract cleaning and CCT

Since the early 1980s business lobbyists have broadened their political influence. The large retailers were particularly active in the Sunday opening campaign, targeting all main political parties. The abolition of the Fair Wages Resolution and restrictions on Sunday opening has further undermined the small firm sector and increased the level of concentration in retailing.

The labour market in public sector cleaning was transformed by the introduction of compulsory competitive tendering (CCT - since 1983 in the health and civil service and since 1988 in local government). The ability to cut costs by inferior pay and conditions, reducing staff numbers and shifting to part-time work means that contract cleaners found it relatively easy to undercut in-house prices in competitive tendering situations. One extensive study noted that: *“Contract cleaning managers estimate that about 90% of the cost of any contract is labour related. Success in the contract cleaning field is largely dependent upon keeping labour costs as low as possible through high productivity, good management and low wage/benefit packages ...By employing workers for less than the statutory number of hours, the cleaning company is not required to provide either employee benefits or national insurance benefits. The CCMA estimates that approximately two thirds of all contract cleaning workers are employed on a part time basis”*. It concluded that *“It is hard to dispute union claims that the Government is achieving its savings at the expense of those least able to defend themselves”* (Ascher, 1987), a finding echoed by a 1987 DTI report which found that: *“Cleaners are amongst the lowest paid members of the labour force, and their relative position has further declined in recent years”*.

A study commissioned by the then Department of Employment confirmed the above findings. It found that in a North West England district hospital, *“which seemed not untypical, all (authors emphasis)*

*domestic services and unskilled catering jobs (about 600) were moved onto a part time basis, mostly with working weeks of less than 16 hours, to minimise employers' fixed costs" (Hunter and MacInnes, 1991).*

Furthermore, *"The hourly pay of directly employed staff was usually defended at the expense of such measures as dramatic reductions in the hours of work for women (this was not seen as an option for men), intensification of work, loss of fringe benefits, security of employment, right to sick pay or maternity leave."* It quotes a hospital personnel officer: *"They're doing more work in less time for less money... It's the bottom line really... the ancillaries have had a fairly raw deal out of it"* (Hunter and MacInnes, 1991).

A recent EOC report looking at the impact of CCT in local government came to similar conclusions: some 82% of the (34) case studies had cut the level of employment. Two thirds of the case study sites had cut contractual hours, in part to reduce employers' National Insurance contributions. It found that there was *"a deliberate policy to reduce the hours of cleaners to below 16 hours per week from an average of nearer 20 to cut costs and increase productivity. This is designed to ensure that the weekly earnings of part-time workers did not exceed the National Insurance Lower Earning Limit (LEL)"* (Escott and Whitfield, 1995).

The progressive concentration of ownership has been a central feature of the low pay sector. Firms such as Rentokil-Initial plc, whose chief executive has recently described anti-union measures as *"pest control"* (Independent, 1998), experienced rapid growth in the 1980s and 1990s. Taking advantage of the privatisation of ancillary services in local government, central government and the health service, where services are inherently labour intensive with little scope for improving productivity by capital investment or innovation, profit margins were maintained by a deterioration in the terms and conditions of workers. Rentokil-Initial is now *"the world's biggest services group"* and,

according to the Financial Times, the 15th most profitable British firm (Financial Times, 1998). The UK accounts for 44% of its sales and it trades in over forty countries. It continues to expand rapidly by take-over.

## **5.2. The concentration of ownership**

The importance of this degree of concentration for the issue of low pay is the extent to which that apart from being low payers themselves, the large retailers dominate supply chain in which low payers are also concentrated. The extent of this can be shown by the Government's evidence to the LPC which gives a league table of low paying industries (Department of Trade and Industry, 1998). Retailing is third from the top (behind hotels and restaurants and clothing manufacturers). The top sixteen low paying sectors include agriculture, fishing and the manufacturers of clothing, textiles, leather goods, furniture manufacturing and food and beverages. All of these industries are major suppliers to retailing and all had at least 10% of the workforce with earnings lower than £4 an hour in 1997. The large retailers are therefore at the apex of a pyramid of low pay and are well placed by their capability for switching suppliers and for global sourcing to keep pay down.

## **5.3. The fragmentation of work**

The retail trade and catering sector has also seen the fragmentation of work. Office of National Statistics figures reveal that the retail sector now employs 2,287,200 staff - over 90,000 more than the same time last year; 85% of retail employees work part time (Income Data Services Report, September 1997). The average working week among Sainsbury's part time supermarket staff is around 17 hours. In McDonalds, which will soon be a bigger employer than British Steel, employees work an average of 15 hours a week (Income Data Services, November 1996). Walby notes that part timers are "*...often a preferred option by employers in situations of economic*

*restructuring... The workers so employed are not only cheaper to employ, but flexible in terms of working hours to suit peak demand"* (Walby, 1997). An recent EOC study of retailing confirms this analysis, finding that *"... the most common reason for employing part-timers is to contain or reduce costs whilst having the flexibility to cover regular fluctuations in business"* (Neathey and Hurstfield, 1995).

Staffing demands are complicated by extended operating hours (particularly Sunday opening); trading hours of 75 hours a week (or more) are increasingly covered by a workforce which includes a large number of part timers working a wide range of hours and working patterns. For part timers, overtime working *"rarely attracts more than basic pay"* and any additional hours worked beyond contract are unlikely to count towards pensions, sick pay or holiday pay. Among the "atypical" staff surveyed by the EOC *"four in 10 of the retail participants had weekly earnings which were below the 1994-95 National Insurance contribution thresholds of £57 a week and so were excluded from state benefit provisions such as statutory sick pay"*. Information technology systems have eased the ability to minimise labour costs: *"computer technology designed to monitor and predict trading patterns combined with sophisticated computerised personnel systems - known as 'scheduling engines' - have made it possible for employers to estimate with high levels of accuracy (down to sub-fractions of a person hour) their precise staffing requirements at particular points in the trading cycle"* (Neathey and Hurstfield, 1995). In particular, it makes it much easier for employers to organise working time so that employees earnings stay below the National Insurance threshold; it also facilitates the large scale replacement of full time with part time labour.

#### **5.4. "Kleenex youth": young workers and the minimum wage**

During the March 1994 demonstrations in France against a lower minimum wage for those aged under 25, one union member dubbed

them “*the Kleenex youth, who are used and then thrown away*”. The exemption of young people from a full minimum wage, provides an incentive for many employers to substitute cheaper, younger workers for older ones. As the LPC notes the wages of young workers as a proportion of adults pay, has fallen dramatically since 1979. For 18-20 year olds, wages fell between 1976-1996 from 62.5% to 46.5% and from 77.3% to 57.1% for women. A recent study of the retail industry found that “*Young workers, with contracts of 15 or fewer hours a week, are generally subjected to the worst pay and conditions and are often required to be the most flexible*”. The Restaurateurs Association says that in the commercial sector of the hospitality industry (1994) 31% of staff are aged 16 to 24 (Restauranters Association, 1998). Students are an important part of the young workforce; the Office of National Statistics estimate that a third of students are employed (Income Data Services Report, May 1997). 60% of Pizza Hut’s hourly paid staff are in full time education. In Sainsbury’s a fifth of store staff are in full time education (Income Data Services, September 1997). As the LPC recognises, the Government’s proposed new funding arrangements for further and higher education will lead to a greater influx of students into the labour market.

## **6. The Dynamics of Labour Markets: Employers of Last Resort and Turnover Rates in Low Paying Sectors**

*“Economic processes, in short, are not reducible to sums in simple arithmetic. The reaction which follows an increase or reduction in wages is not merely quantitative but qualitative.”* R.H. Tawney, 1915

The growth of low pay since the late 1970s has led to high levels of labour market instability. The costs of such instability, include very high rates of turnover and dramatic shifts in the number of vacancies in low paying sectors, as economic conditions change. Low paying sectors in Britain operate with high levels of vacancies and low paying firms have high rates of labour turnover. The high vacancy rates in low paid sectors are set out in Figure 2. This tracks, between

1984 and 1996, the notified vacancies (solid line) and filled vacancies (dotted line) for: (a). wholesale, retail, repairs, hotels and catering (low paid sectors); and (b). all other industries and services. Notified vacancies in the low paid sector ranged between 22.1% of employment during the late 1980s boom to 15.3% during the 1990s recession, while in other industries and services they ranged between 7.5% and 10.1% between 1984 and 1996. The low paid sectors also recorded much higher levels of vacancies which remained unfilled (the vertical difference between the dashed and solid line in Figure 2). Unfilled vacancies varied in the low paid sector from 7.8% of employment in 1988 to 4.4% in 1991 compared with variations of between 2.9% to 1.9% in other sectors.

The high level of labour market instability in low paying industries was the subject of research sponsored by the then Department of Employment. This examined the cost of the high turnover and the problems employers then faced in recruiting and retaining workers in the tourism and leisure industry, a major employer of low paid workers. In introducing the report Brian Wolfson, Chairman of the NEDC Tourism and Leisure Industries Sector Group, argued that:

*Companies in tourism, leisure and hospitality are facing acute recruitment difficulties. Moreover the loss of large numbers of trained staff impose an unacceptable high cost burden on these businesses,...*

*In the last decade managers of tourism and leisure businesses have been able to call on a sufficient supply of labour. Many have found themselves in a buyers market. The situation is changing fast... Recruitment and retention problems are now pressing issues for many businesses. Turnover rates are as high as 100-250% per annum.*

The report added that the industry would suffer from intensified competition for its sources of recruits, and "... is likely to do relatively badly because of its poorer image, lower career potential, lower pay



*and benefits and less sophisticated personnel practices”* (NEDC, 1989).

However, with the rising tide of unemployment, low paying employers were spared the cost of raising wages and improving the terms of employment. But, as is shown by Figure 2, with the recent tightening of the labour market, unfilled vacancies in the low paying sector are increasing and the problems of high labour turnover and staff shortages are re-emerging once more.

A minimum wage can combat labour turnover rates in low paying sectors of the economy. The evidence suggests that low paying employers are employers of last resort. A survey by Leisure Career UK of licensed retailers found a turnover rate of 68% among part-time employees (Income Data Services, April 1998). A recent CBI survey found that while average staff turnover in the economy as a whole was 16% (11.6% among full time staff, 25.2% among part time staff) in the retail and wholesale sector it stood at 39%; 45% among part time staff (Income Data Services, October 1997). Companies like Pizza Hut, where the trained rate for waiters is £3.20 an hour, has labour turnover rates of 105% (down from 143% in the year to October 1996) - among new starters it is as high as 300% (Income Data Services, July 1998). In 1994 the Institute of Personnel and Development reported a 47.9% turnover rate in the hotel and leisure industry; in retail it stood at 34%. On a international comparison, a CBI study found that the turnover of staff in three star hotels averaged 33% in the UK, compared to 19% in France and 16% in Germany (Department of National Heritage, 1996). When employees were asked why they were leaving at such high rates, most (68%) cited low pay. Among NHS domestic and ancillary staff there are also high rates of turnover; a 1988 government commissioned survey of 37 District Health Authorities found an average turnover rate of 45% (Gray, Normand and Currie, 1998). This was much higher than the rates for higher paid staff such as Nursing and Midwifery staff (20.2%) or non-medical staff in general (25.3% including ancillary staff) (Audit

Commission, 1997). Conversely, as the LPC notes, turnover “*is lower in firms that pay higher wages, offer good career prospects and recognise unions*”.

The costs of turnover are very high. In 1992 the costs of rapid turnover in the hotel and catering industry were estimated to be £420 million. In the textile industry, the Clothing Training Board estimates that £108 million of training expenditure is wasted mainly through high turnover (Lindley, 1992). The Audit Commission found that the average cost of replacing an “E” grade nurse was £4,900 (Audit Commission, 1997). WH Smith calculated (in 1993) that replacing a sales assistant costs £2,000 (Income Data Services, May 1995). The Audit Commission argues that “*If staff could be retained for longer period, the return on the investment in training would improve, and, in the medium term, the need to train fewer replacement staff would release funds for other aspects of the service*”. A report on the use of labour in the tourism industry, commissioned by the then Department of National Heritage, identified low pay as one of the key factors undermining the morale of employees in that sector. It found that “*human resource practices which lead to high turnover, skill shortages and a lessening of service quality may seem to be a viable option in the short term, but are likely to be damaging to the industry in the long term*” (Department of National Heritage, 1996). The LPC cites figures that state the average cost of turnover among the “unskilled” to be around £735 a worker. High job turnover also means that employers are more reluctant to invest in training - the type of investment that leads to higher productivity and thus can be the basis for higher wages. A vicious circle is thus set in motion.

## **7. The Consequences of a Minimum Wage**

*“Do not let any calamity-howling executive with an income of \$1,000 a day,... tell you... that a wage of \$11 a week is going to have a disastrous effect on all American industry”* Franklin D. Roosevelt  
1938

Predicting the price and employment consequences of a minimum wage is a hazardous exercise. The labour market is complex; it is not like a market for apples and beans, but is much more intricate, segmented and imperfect. Exaggerated and highly partial claims are commonplace. The price and employment effects of the minimum wage depend on its coverage and whether its additional costs are offset by adjustments employers make for other parts of the pay, hours and benefits package.

Most of the jobs affected by the minimum wage are in the non-tradeable sector and will not become less competitive if the minimum wages of all British low paid workers are raised. Those that are in the tradeable sector, such as textiles and clothing, have seen a long term decline in their employment levels regardless of the minimum wage. In such sectors a competitive strategy that is based on low pay is not viable.

### **7.1. Restructuring and the minimum wage**

There is an expectation among businesses that the minimum wage will have important structural effects. The CBI predicts the closure of small businesses in the retail sector, as they will be unable to make the productivity gains of larger businesses, whereas *“larger outlets [can] take on the additional business without needing additional staff”* (CBI, 1997). Smaller companies are unlikely to have the substantial profits that larger firms can draw upon and will find it harder to make the productivity gains of larger businesses. A 1996 study commissioned by the Employment Policy Institute (EPI), which assumed a minimum wage of £3.50, argued that *“Small operators, who are being driven out anyway, will be driven out faster as they have to face higher wage costs with little opportunity to recoup them.”* The EPI study also predicts that *“If the NMW is an hourly rate of pay, it is clear that employers offering bonuses, etc. will be tempted to consolidate these into hourly rates... If instead the NMW is defined as average hourly earnings the temptation will be to use all*

*'extra' payments - shares in profits, and benefits in kind, like meal vouchers or discount deals, etc. - to boost hourly earnings if the definition allows. In both cases employers may meet part of the cost of the NMW by reducing, or abolishing, overtime and other premium rates, paid holidays and help with travelling costs. To some extent all employers will consider these practices but those who face the biggest increase in labour costs are likely to adopt them most*" (Bayliss, 1996). Similarly the CBI forecasts reductions in non-wage benefits arguing that *"Companies would seek to redistribute their costs by removing pensions and benefits"* (CBI, 1997). Companies such as Rank Organisation have said that the removal of benefits would probably be the solution to consider the minimum wage level came in too high (Caterer and Hotelkeeper, 1996). Such changes, and the substitution effect of any exemption, would dilute the impact of the minimum wage and limit any overall effect it may have on employment and prices. But, there can be little doubt that businessmen and women who pay low wages are right to believe that a minimum wage will have an effect on their business; that is what it is designed to do. The aim of the legal minimum wage is to improve the relative pay of workers with low earnings and as relative earnings are embedded in the price and employment structures, changing them will have price and employment consequences. The important questions are whether these changes will be for the good or ill of for the economy, and what needs to be done to counter any adverse effects. In attempting answer these questions it is necessary to examine what the effects might be and how they are brought about. The employment effects of eliminating the tail of low pay by a legally enforceable minimum wage can be divided into a direct effects - the result of making low paid workers more expensive to employ - and indirect effects - arising from the inflationary consequences of raising pay levels. These effects are examined firstly within the fairly static framework usually deployed by economists before taking into account the more dynamic effects.

Generally, whether workers are priced out of the market depends on the extent to which their wages rise relative to the prices of the goods they produce. Some firms depend on low pay to survive. These would be threatened by a minimum wage and would need to improve their efficiency to remain viable. But this does not imply a decline in the overall level of employment as demand would shift to more efficient firms. Employment in low paying sectors may also be threatened if, as a result of the minimum wage, firms are obliged to raise prices to protect profit margins. However, the overall employment effects and the redistribution of employment between sectors depends on the elasticity of substitution between goods produced by low paid labour and other products and the relative labour intensity of production in different sectors. An employment compensating effect can be expected.

## **7.2. The direct effects of a legal minimum wage**

### **7.2.a. The first round cost effects**

The first round effects are the wage cost increases resulting from raising earnings below the minimum wage to that level. Prices of home produced goods and services will rise proportionately to wage cost increases on the assumption that profit margins and the rate of indirect tax remain unchanged, but as imports constitute around 25% of final expenditure and as imports prices will not be affected by the minimum wage the overall effect on domestic prices will be 75% of the wage cost increases.

It should be noted that this will be the maximum *direct* price effect. Any second and subsequent round effects including the substitution of other workers or machines for workers made more expensive by the minimum wage, the substitution by consumers against goods and services made more expensive by a minimum wage, and induced productivity increases will reduce the overall price impact of a minimum wage. The differential impact of a minimum wage on

occupational groups depends on the proportion of earnings below the minimum and the distribution of earnings in the lower ranges. The higher the proportion of earnings below the minimum in any occupation and the more heavily the earnings are concentrated in the lowest levels, the greater the direct labour cost effect.

The overall effect of different levels of minimum wages on a sector's direct labour costs depends on its occupational mix and the level and dispersion of earnings in each occupation. A heavy concentration of low paid occupations are found in hotel and restaurants, personal and recreational services, retail and distribution, and in the manufacture of traditional consumer products as textiles, clothing, leatherwear, food, beverages and furniture; and this results in relatively large increases in direct labour costs in these industries. Other sectors (for example, health, social work and education), have a mix of lower and higher paid occupations which moderates the average effect of minimum wages on direct labour costs.

At higher levels of a minimum wage a larger proportion of low paid occupations are covered and the lower end of the distribution of higher paid occupations are also brought within its scope so that the effects of legislative wage control becomes more pervasive. This is explained by the wide dispersion in occupational earnings noted above, a dispersion which has sharply increased since 1979.

### **7.2.b. Second and subsequent round effects**

There is a widely held view that the main threat to employment will come from the so called knock-on effects. The CBI contends that *"Even a modest minimum, set around the £3 mark, could lead to job losses unless wage differentials are squeezed"* (CBI, 1997) and the Engineering Employers' Federation (EEF) notes that while the direct impact of a minimum wage among its members is *"likely to be limited"* (a 1997 EEF analysis of 120,000 manual employees in engineering found that 0.9% would be directly affected by a minimum

wage of £3.50, 5% by a minimum wage of £4.00 and 6.5% by a minimum wage of £4.15) of much greater “*concern*”, is the impact on pay differentials both within the engineering industry (especially those between men and women, see Appendix 1) and those with lower paid sectors of the economy (EEF, 1997). There is a complex relationship between the longer term impact of changes in the level of wages and the level of employment, particularly in the case of the minimum wage, when only a proportion of the workforce is affected. The complexity of the relationship between changes in relative wages, the structure of employment and organisation of production; and between changes in labour costs, the pattern and level of prices and the structure and level of demand means that estimates of the direct employment effect based on simple models of how the economy operates are unlikely to be reliable.

An increase in the wages of the low paid may adversely affect their employment to the extent that employers replace them with grades whose wages have not increased. There is no reason to believe that these effects will be significant if a minimum wage is introduced in Britain. The heavy concentration of low pay in certain sectors means that where occupations can be considered substitutes for each other - for example cooks and kitchen hands - both are low paid. In other cases, low paid occupations, for example, cleaners, sewing machinists, typists, have no close substitutes. It is also unlikely that the introduction of a minimum wage would lead to a widespread replacement of workers by machines. There may be some scope for substitution - a cook could be provided with more powerful mixers to increase productivity so that the number of cooks could be reduced. On the other hand, few opportunities exist for increasing the productivity of hairdressers by further mechanisation. More generally speaking, low paid jobs tend to be located within technical systems in which workers’ skills and effort are complements to, rather than substitutes for, capital equipment. In these cases substitutions between grades of workers and between workers and machines are not feasible and major reorganisations are required to significantly change the

ratio of workers to capital equipment. It is unlikely, for example, that fast-food chains or supermarkets would significantly change their methods of operation if the wages of their low paid employees increased. Moreover, even if employers substituted between grades of workers, or increased the capital intensity of their operations, the overall effect on employment is not easily predictable but is unlikely to change much either way. The employment of one grade would rise to compensate for the decline in the other and a greater use of machines would require more workers for their construction and maintenance.

The employment compensating effect can be expected to be small for goods which are internationally traded and where the switch in jobs could be to foreign producers. The textile and clothing industries are subject to intense international competition which puts prices largely outside the control of domestic producers. The British Apparel and Textile Confederation (BATC) notes that textiles "*is the manufacturing sector most affected*" by a minimum wage (BATC, 1997). It is possible that the minimum wage will be blamed for UK closures in the industry or a shift to production abroad. Both the BATC and the CBI argue that just such an outcome will follow a minimum wage.

However, textiles and clothing are industries that have been experiencing a sharp long term decline in the numbers it employs; the level of total employment in textiles and clothing fell by 12%, from 526,000 to 464,000 between 1981 and 1988 (Lindley, 1992). Rubery et al found that the "*The power and concentration of the retailers, industrial fragmentation, relatively low start-up costs and availability of homeworkers and immigrants and ethnic minority labour have encouraged British firms to pursue ultimately problematic wage cost-cutting strategies*" (Lindley, 1992). British goods concentrated at the low quality, low price end of the market are in direct competition with third world imports. Furthermore, they found that: "*Detailed studies of small clothing firms reveal a reluctance to invest in automated*



*technology ostensibly on the grounds that it reduces flexibility. But although information, design and pattern-lay technology aid flexible production, only five of a sample of 25 small companies had invested accordingly.*” Comparisons between the training and skills in the German and British clothing industry found the latter wanting at all levels: *“More than three times as many supervisors are required in Britain as in Germany because of the continual need to retrain machinists and to control faulty work. British supervisors themselves are much less qualified than their German counterparts and tend to get trapped in the mundane tasks of quality control and labour supervision while German supervisors are engaged in production planning and work study.”* Although wage costs in Britain are low by European standards (German firms face costs of 50 to 100% higher) they are offset by low productivity levels.

Moreover, regardless of and prior to a minimum wage, firms such as Courtaulds Textiles have closed UK factories to shift production to cheaper locations abroad. According to the Financial Times, its profit margins were enhanced by new factories in Sri Lanka and Morocco which can mass produce goods such as T-shirts with lower labour costs (Financial Times, August 1997). Its UK plants serve customers like Marks & Spencers on a flexible, rapid-response basis, something which its plants abroad are unable to do. The BATC notes that *“The value of exports has increased by almost 50% in five years to £7.4 bn, as a growing number of companies have found that foreign markets are very receptive to design, high quality production and brand name strength of UK products”* (BATC, 1997). The flow of cheap goods into Britain, the relocation of British companies to low wage countries and the export success of the *high road* firms all repeat the same message: British producers cannot compete on the basis of low wages.

The bulk of low paid workers are not in manufacturing but in the service sectors that do not trade internationally. Most of those who will benefit from a minimum wage are employed in distribution, hotels and catering. As wage costs in these sectors are unlikely to be

more than 20% of the value of sales, this low proportion has to be taken into account when assessing the impact of labour cost increases on prices. Other public and private services are more labour intensive and there the overall effect on costs will be greater. However, the main effect is in the home market so that there is no external constraint to passing on cost increases in the form of higher prices.

### **7.3. The indirect employment effects**

*“The wages of the better-paid will also rise as pay differentials are restored”*. The Economist, November 1997

*“The evidence from some studies, both in the United Kingdom and elsewhere, suggests that the slipover effects from increases in the minimum wage are limited and, therefore, that changes in minimum wages may have a significant impact on the incidence of low pay.”*  
OECD, December 1997

If first round price increases are built into general cost of living claims then the effect will be a general inflation. Inflationary pressure could also arise from attempts to restore differentials narrowed by the minimum wage. A complete restoration of the pre-policy wage structure would mean that the general level of pay would rise by as much as the percentage needed to raise the lowest level of pay to the legal minimum floor. This would completely defeat the purpose of a minimum wage and have serious inflationary consequences. However, estimates of the inflationary impact of a minimum wage are as problematic as those of the employment effect. To gauge the possible effect of a minimum wage on existing wage rate structures, a study was made of 373 wage agreements by Income Data Services (IDS) for the period October 1995 to October 1996. The impact of the minimum wage on the structure of pay rates depends very much on the level at which it is set. If set at £3.25, 9% of the wage agreements studied would have at least one wage rate affected; at £3.75 this proportion rises to 29% and at £4.25 it reached 46%. Multi-employer agreements

are more extensively affected by a minimum wage. At £3.75 an hour the minimum wage would, by affecting at least one wage rate, impinge on 54% of the multi-employer, 22% per cent of the single employer and 23% of the public sector wage agreements. At £4.25 these proportions are 79%, 35% and 44% respectively.

There is no information readily available to evaluate the extent of the impact of a minimum wage on the *earnings* structure of firms within the scope of multi-employer agreements. This will depend on the local mark-up on minimum rates. A glance at the earnings distributions by the 1996 NES survey breakdown shows that few males within the scope of multi-employer agreements have earnings levels of £4 an hour or less (4.3% in Ceramics, 6.8% in Motor Vehicles Retail and Repair Industry and 4% in Buildings). By contrast, the gap between rates and earnings is narrower for women. In hosiery, 11% full-time women have earnings of £3.20 an hour or less; for 33%, earnings are £4 an hour or less; in clothing these proportions are 7% and 29% respectively. The effect of a minimum wage on the earnings structures is much more predictable for the major single employer wage agreements in retailing. The differentials between comparable grades employed by different firms and those between different grades would be telescoped at the bottom end by a £3.75 minimum wage and almost compressed out of existence by a £4.25 rate. These examples suggest that a minimum wage, pitched at a level to have a meaningful impact on the problem of low pay, will necessarily have a significant effect on wage structures.

The degree of pressure to restore differentials is a matter of guess work. Economists frequently assume that workers are ultra-sensitive to changes in the wages of other groups. It is often argued that any wage increase at the *bottom* of the wage structure, will be replicated at all levels with a rapid restoration of previous differentials. However, the significant changes in differentials both between and within occupational groups over the past 20 years casts considerable doubt on this generalisation. Sociological research shows that individuals

make comparisons over narrow occupational, social and geographic ranges; feelings of deprivation appear to relate to others in their own circumstances who appear to be doing better rather than to more distant groups (Runciman, 1996; Daniels, 1976). This is reflected in collective bargaining where it is found that union negotiators, when making comparisons, focus on the wage position of their members relative to workers doing similar jobs in the same firm or in the local labour market. It seems hardly credible, therefore, that pay increases for the lowest paid would be cited as part of the bargaining strategy of higher paid groups. Is it likely, for example, that craft unions would make comparisons between the wages of their members and those of hairdressers and cleaners? It does, however, seem more reasonable to suppose that skilled workers might react to the narrowing of differentials within their own bargaining units. But, in metal goods, electrical and mechanical engineering and vehicles, for example, few male manual workers would gain from a minimum wage so there would be little pressure on differentials. On the other hand, a high proportion of women manual workers in these sectors would be affected (see Appendices 1 and 2) and although women make up only 25% of the manual workforce the minimum wage can be expected to have a significant impact.

However, where collective bargaining is well established, women workers can be expected to have been assimilated into male grades under the equal pay legislation and to have wages higher than the proposed minimum. The low paid in engineering and related trades tend to be found in non-union firms; it is extraordinary to suppose that the organised sector would look to these for comparisons. Any wage increases to maintain differentials are therefore likely to be confined to those sectors where pay is generally low and is unlikely to extend to the whole economy.

Historical experience warns against exaggerated claims as to the size of the knock-on effects, even in low paying industries. Much of the relative increase in wage council rates in the 1970s was absorbed in

earnings, so that the earnings in wage council industries increased far less in relative terms than wage rates. And, within wage council industries, differentials narrowed sharply under the pressure from rising minimum rates. Moreover, equal pay legislation proved very successful in narrowing differentials (Craig and Wilkinson, 1982). Even in heavily unionised sectors, where it might be expected that differentials are most jealously guarded, it has proved possible to radically change wage relativities. IDS examined 120 pay agreements which resulted in narrowing of differentials between the high and low paid workers and concluded "*that unions and employers frequently sign agreements that can have the effect of eroding differentials, without any obvious employment effects, and without claims for equivalent percentage rises higher up the pay structure*" (Income Data Services, 1991). The IDS analysis revealed widespread changes in wage structures benefiting low paid under pressure from the labour market and equal value legislation. Job evaluation has been widely used in establishing the basis for changed differentials and trade unions have been actively involved in negotiating and implementing such pay agreements. There is clearly nothing sacred and fixed about wages differentials, so it is unreasonable to suppose that special treatment for the lowest paid would trigger a general round of wage increases.

Thus the evidence suggests that a minimum wage will have a significant impact on the wage structure, but that wage increases to maintain differentials will be confined to those sectors where pay is generally low and is unlikely to extend to the whole economy. Even in the low paid sectors, experience with equal pay legislation suggests that differentials can be changed without a significant knock-on effects.

## 8. Conclusion

*“The offer of a job should be a mark of confidence and respect, the beginning of a relationship of cooperation and mutual support. That requires that the rate of pay offered is not insultingly low”*  
Unemployment and the Future of Work, the Churches Report (1997)

There has been a growing realisation of the dynamic benefits of a minimum wage; a recurring theme since the late nineteenth century in social and economic debate over low pay eradication and its consequences. As early as 1888 a House of Lords inquiry (into ‘sweating’) considered evidence on trades which exhibited characteristics, including *“a rate of wages inadequate to the necessities of the worker or disproportionate to the work done”* (Morris, 1986). By the turn of the nineteenth century, this had generalised into widespread concern at the condition of the British workforce, particularly when compared to its German and American counterparts. The 1891 Royal Commission on Labour, the annual reports of the Factory Inspectorate, the Royal Commission on Housing and the 1904 Report on Physical Deterioration all highlighted the poor state of the workforce. The work of Cadbury and Rowntree found that for a significant proportion of the workforce a man’s wage was not sufficient to support a family. The studies of ‘sweated’ labour in the 1880s and 1890s opened up a new perspective on poverty, especially the poverty of people who worked desperately hard for very low wages.

Employers giving evidence to the House of Lords Select Committee on Homework (1908) and the Royal Commission on Labour explained that they were quite willing to pay higher wages, were it not for other employers in the same trade who would undercut them. Many employers felt badly about low payers; domestic production where low pay was rife acted as a brake on capital investment in factory production and in the development of productivity and greater efficiency. The select committee itself referred to the *“anarchy of*

*competition” and “the cutting of prices in contract work follows as a natural consequence, the less reputable employers underbidding their competitors and seeking to recoup themselves by reducing the remuneration of the workers.” A minimum wage was seen as a tool that prevented such a spiral; in Sidney Webb’s words, it would mean that “No employer is allowed to compete downward by nibbling at wages” (Webb, 1912). Without it, as Churchill famously remarked, “... the good employer is undercut by the bad, and the bad employer by the worse” (Churchill, 1909). This argument made important, albeit reluctant, converts to the case for a minimum wage; ‘The Times’, while opposing any adoption of the principle that the government should set up a minimum wage, cautiously welcomed the attempt to deal with what is considered to be the special circumstances of the sweated trades on the grounds that: “Employers of the better class are glad to be themselves protected against a competition based upon inadequate payment of workpeople” (Morris, 1986).*

When the 1909 Trade Boards Act was passed, introducing legally binding minimum wages into the “sweated trades” of tailoring, paperbox, lace finishing and chain-making, it did so with all party support and few dissenting voices. The impact of the first Trade Boards on the organisation of firms was examined by R.H. Tawney and his colleagues (including the future prime minister Clement Attlee). He found that in the tailoring industry it impelled firms to overhaul their methods of production: *“They do not trouble to do so until they are compelled ... The effect of the Trade Board has been seen in four main directions. It has led to more careful attention being given to the training of workers. It has caused processes to be redivided and to be grouped differently. It has stimulated the introduction of new kinds of power and of better machinery”* (Tawney, 1915). A minimum wage was a spur to better training, among *“better managed firms”* the effect of the new rates was to stimulate employers *“not merely by ‘speeding up’ but by the more careful training of workers and by the improvement of processes and*

*equipment.” Tawney and his colleagues had considered the restructuring that followed the trade boards. In tailoring he argued that some firms “which have hitherto held their own by cutting wages to the lowest point possible will in time disappear is probable in itself, and is suggested by some of the evidence which has come before us”. He maintained that this was not necessarily bad news for the industry as a whole, as those firms which closed “have held their footing in the industry mainly by employing the worst-paid women workers to produce the cheapest class of goods”. Deprived of reliance on very low pay, “the factory occupiers may bring their management into line with that of their more efficient competitors”. He argued that the minimum wage encouraged greater efficiency (Tawney, 1915).*

At the turn of the century, pressure for a minimum wage was part of a political reform package in which the setting of minimum employment standards, encouraging collective bargaining and welfare state policy (education, health and social security) combined to improve both the supply and the demand side of the labour market. This purpose was increasingly served by the standards set by the state in public sector employment practices, collective bargaining arrangements and the elimination of low pay from public service by such means as the Fair Wage Resolution.

It was repeatedly argued is that work should pay a living wage and that this will be a spur to better management, technology, training and organisation of work. It also raises the level of demand in an economy as it redistributes income to poorer workers who spend a high proportion of their earnings. The LPC also makes these very arguments.

## **9. Taking the high road**

As we argued prior to the publication of the Low Pay Commission report (Sachdev and Wilkinson, 1998), a low minimum wage could legitimate low pay in public contracting and undermine higher rates



set for directly employed. There is a distinct danger of a low minimum wage entrenching low pay. The low minimum wage and the consequent reliance on in-work benefits to produce a “living” wage does not eliminate the danger of the state subsidising low paying firms or the poverty trap. Furthermore, unless it is married to proposals to underpin collective bargaining and restore fairness to the labour market the impact of a minimum wage will be limited. The significantly lower rate for younger workers is particularly harsh, diminishing the effectiveness of the minimum wage.

The failure to adequately address the issue of how the minimum wage is to be raised is a striking omission. This absence could actually create greater instability for firms as well as undermine the long term future of the minimum wage. Without such a mechanism there is a danger that future increases in the minimum wage will in future be a political football with damaging consequences for low paid workers. The lack of attention given to the long run is a crucial failing.

The case for a high legal minimum wage consists of arguments of both economic efficiency and social justice; there should be a minimum acceptable reward for effort expended in wage labour. The problem of a shortage of jobs productive enough to provide this minimum reward cannot be solved by low wages but should instead be sought by effective aggregate demand, and an industrial and labour market policy designed to generate economic growth. Minimum wage protection can contribute to this by exerting economic pressure on employers to improve management, technology and products and by encouraging them to make better use of their workers by improved training and personnel policy. It also raises the level of demand and hence employment by redistributing income to the poor who consume a high proportion of their income.

A minimum wage inserts a floor into an increasingly segmented labour market with growing inequality. Any exemptions which mean that workers can be employed at wages below the legal minimum

risks undermining its integrity by providing the opportunities for substituting cheaper labour for those legally protected. Moreover, attempts to meet other policy objectives by setting a low minimum wage, for example, as an encouragement to small firm development, as an incentive to train, or as a way of keeping down government spending can be expected to be counter productive. To be successful all firms, particularly small firms, need a well trained and stable workforce and this requires decent pay levels. It is now widely recognised that low pay and poor working conditions and the associated high rates of labour turnover are the most important reason why investment in training yields such a low return. The way to secure and retain a highly skilled workforce is the development of training programmes and qualifications which are well regarded by employers and workers and which lead to rewarding, skilled jobs which secure a good return on the investment in training. It is of central importance that the Government takes a lead in this by setting an example as a good employer and insisting that its contractors do the same. This may add to expenditure in the short term, but this would be more than compensated for in the longer period by improved public services and the more widespread benefits flowing from the Government taking the lead on the *high road* to competitive success.

A minimum wage set at a high level has an important part to play in reforms of the social security system and policies to increase labour market participation. As currently constituted, many poor working families have little to gain from higher wages, as increases in income are clawed back by the state by cuts in means tested benefits. The minimum wage at such a level can also lift a considerable number of families out of the poverty trap and increase the incentive for their members to increase pay by seeking better jobs or acquiring training. By placing a floor to wage levels, the minimum wage would play its part by ensuring that the resulting benefits were captured by families and not passed on to the employer.

Low pay and the resulting labour force instability is a major obstacle to effective training and personnel policy. When unemployment is high, the pressure on management is relaxed; when the labour market tightens firms are reluctant to train as labour turnover is high and potential recruits are reluctant to take training seriously because of the poor job prospects. Consequently, investment in training shows a poor return to both employer and employees. The result is a badly paid, poorly trained and under-motivated workforce.

To make a significant impact a minimum wage needs setting at a high level and be part of a broader strategy to strengthen unions, remove discrimination and restore fairness to the labour market. The setting of a low level minimum wage could undermine its integrity and effectiveness.

Instead it should be used as a crucial part of a strategy towards better, more rewarding jobs, lower turnover, a weakened poverty trap and an innovative economy. Training and efforts to reskill the workforce will only be effective if the asymmetry in bargaining power in the labour market is redressed and there is a concerted effort to increase the number of good jobs. In this process, a higher minimum wage can help counter undervaluation and encourage greater efficiency.

## **TABLES AND FIGURES**

**Table 1**      **Changing distribution of the earning of low pay occupations**

A.      1979 to 1990

|                                      | 1979   | 1990   | Increase |
|--------------------------------------|--------|--------|----------|
|                                      | <£1.10 | <£3.20 |          |
| Retail shop checkout assistants      | 47.0   | 63.3   | 16.3     |
| Receptionists                        | 32.9   | 30.2   | -2.7     |
| Sales persons, shop assistants, etc. | 48.6   | 57.8   | 9.2      |
| Chefs and cooks                      | 11.1   | 35.9   | 24.6     |
| Counter hands                        | 26.5   | 53.4   | 26.9     |
| Kitchen hands                        | 29.0   | 57.4   | 28.4     |
| Home and domestic helps, maids       | 16.2   | 31.1   | 14.9     |
| Hospital and ward orderlies          | 4.5    | 35.2   | 30.7     |
| Other cleaners                       | 20.3   | 54.2   | 33.9     |
| Sewing machinists                    | 25.1   | 54.2   | 29.1     |
| Footwear workers                     | 20.2   | 47.7   | 27.5     |
| Repetitive assemblers                | 4.7    | 30.8   | 26.1     |
| Pacers etc.                          | 15.5   | 39.8   | 24.3     |
| All occupations                      | 11.1   | 15.8   | 4.7      |

B.      1991 - 1996

|   | 1991   | 1996   |      |
|---|--------|--------|------|
|   | <£3.60 | <£4.60 |      |
| Receptionists                           | 38.2   | 39.5   | 1.3  |
| Chefs and cooks                         | 44.5   | 56.5   | 12.0 |
| Hospital ward assistant                 | 25.0   | 35.6   | 10.6 |
| Care assistants and attendants          | 39.9   | 59.8   | 19.9 |
| Sales assistants                        | 58.6   | 67.6   | 9.0  |
| Retail cash desk and checkouts          | 56.2   | 72.9   | 16.7 |
| Sewing machinists etc.                  | 57.1   | 60.1   | 3.0  |
| Footwear workers                        | 52.6   | 62.1   | 9.5  |
| Assemblers and lineworkers (electrical) | 32.2   | 45.5   | 13.3 |
| Packers, bottlers, canners & fillers    | 43.3   | 48.0   | 4.7  |
| Kitchen porters                         | 71.9   | 83.3   | 11.4 |
| Counter hand, catering assistant        | 53.4   | 71.7   | 18.3 |
| Cleaners, domestics                     | 55.4   | 67.4   | 12.0 |
| All occupations                         | 17.2   | 20.7   | 3.5  |

Note: In 1969 £1.10 was 71% of the median hourly earnings for all full-time female occupations.  
 In 1990 £3.20 was 69% of the median hourly earnings for all full-time female occupations.  
 In 1991 33.60 was 70 % of the median hourly earning for all full-time female occupations.  
 In 1996 £4.60 was 70% of the median hourly earnings for all full-time female occupations.

Figure 1: Earnings in Low Paid Male and Female Occupations and Median Earnings in all Female Occupations as Percentages of Median Earnings in all Male Occupations: Hourly Earnings

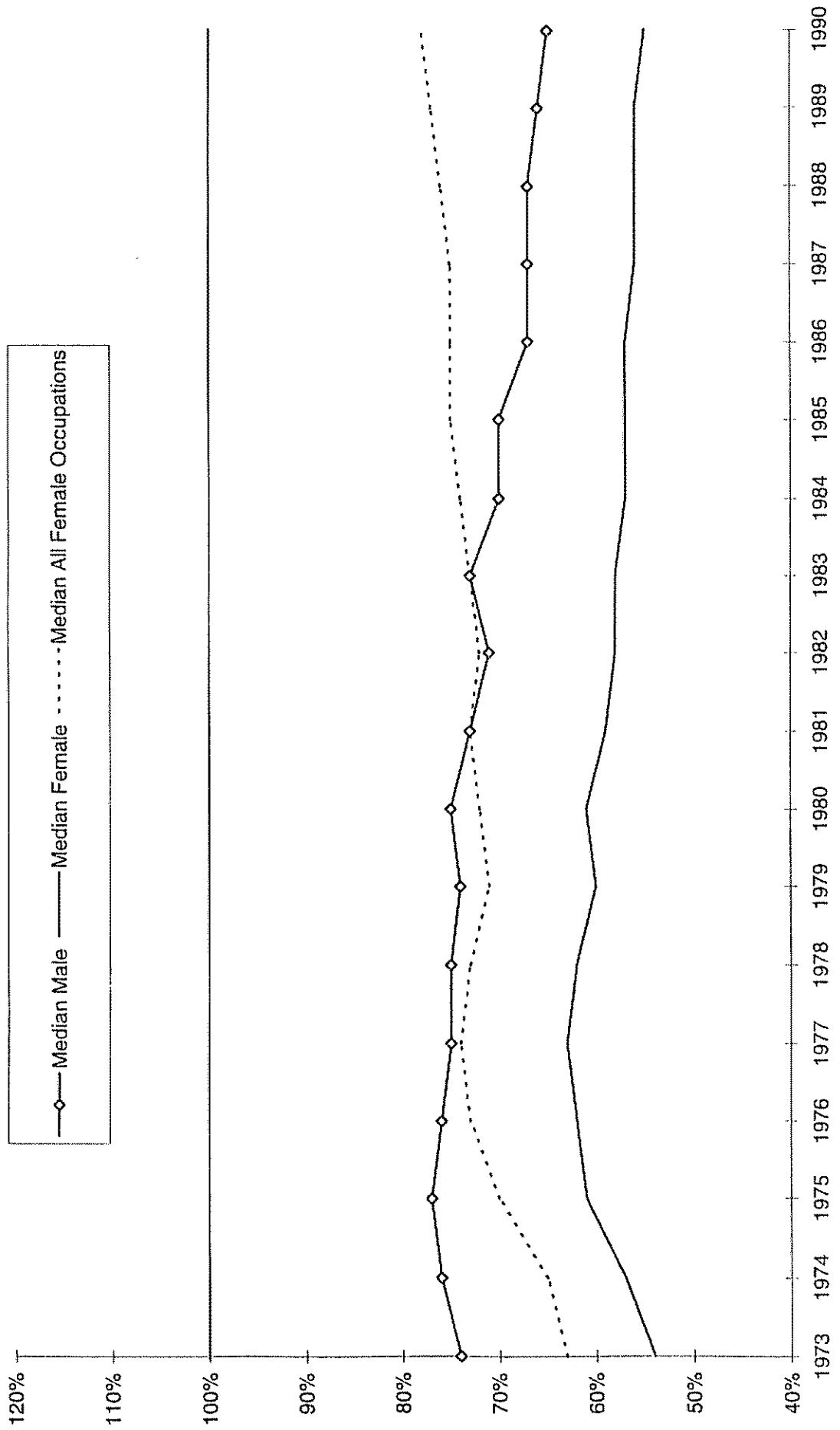
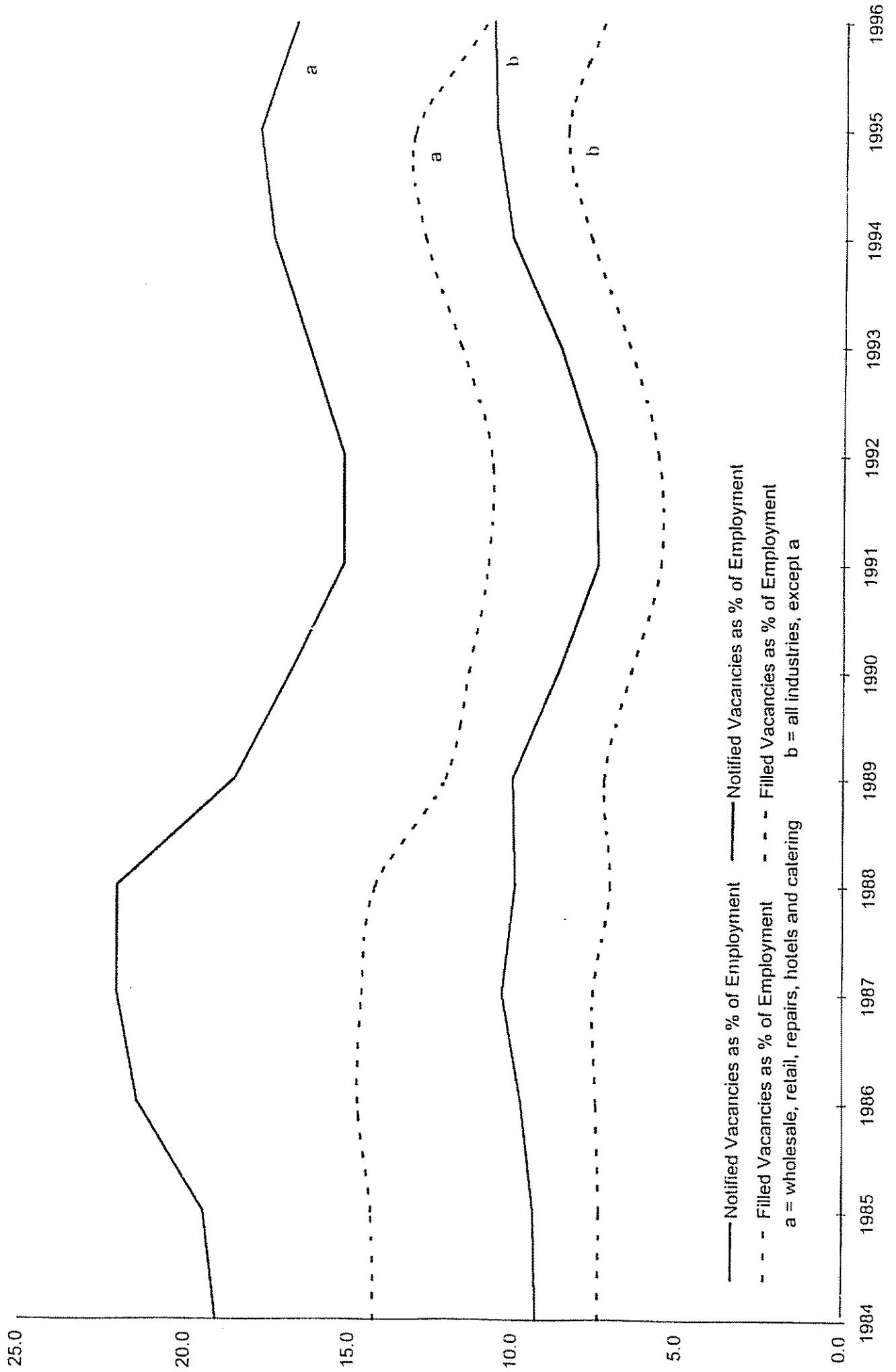


Figure 2: Notified and Unfilled Vacancies 1984-1996



## **Bibliography**

- Ascher, K. (1987). *The Politics of Privatisation: Contracting Out Public Services*, London, Macmillan
- Audit Commission, (1997) *Finders, Keepers: The Management of Staff Turnover in NHS Trusts* Feb
- BATC (1997) evidence to the Low Pay Commission
- Bayliss, F. (1996) *Employers and a National Minimum Wage*, Employment Policy Institute July
- Beckett M., (1998) President of the Board of Trade, Statement by on the Low Pay Commission report, 18 June.
- Blair, T. (1997) *New Britain*, Fourth Estate, London
- Card D. and Kruger A, (1995) *Myth and Measurement; the new economics of the minimum wage*,
- Card D. and Kruger A, (1994) *The Effect of the Minimum Wage on Shareholder Wealth*, Industrial Relations Section, Princeton University.
- Caterer and Hotelkeeper 19.9.96
- CBI (1997) Evidence to the Low Pay Commission, Oct
- Churchill (1909) House of Commons introducing the Trade Boards Bill
- Cole, G. D. H. (1938) *Living Wages: The Case for a New Minimum Wage Act*, New Fabian Research Bureau, London



- Craig C. Garnsey E., Rubery J. (1985) *Payment Structures and Smaller Firms: Women's Employment in Segmented Labour Markets*
- Craig, C. Rubery, J. Tarling, R. and Wilkinson F. (1982) *Labour Market Structure, Industrial Organisation and Low Pay*, Cambridge, Cambridge University Press,
- Cully M. and Woodland S., (1998) Trade union membership and recognition 1996-97: an analysis of data from the Certification Officer and the LFS, Labour Market Trends, July
- Department of Employment and Productivity, (1969) *A National Minimum Wage: An inquiry*,
- Department of Employment, (1985) *Consultative paper on Wage Councils*
- Department of National Heritage, (1996) *Tourism: Competing with the Best, No3: People working in Tourism and Hospitality*
- Department of Trade and Industry (1998) *Government's Evidence to the Low Pay Commission*, January
- Education and Labor Committee, (1977) *The House Report on the Fair Labor Standards Amendments of 1977*
- EEF evidence to the low pay commission, Oct 97
- Employment Audit No 8 (1998) *Employment Policy Institute*, Summer
- Escott, K. and Whitfield D. (1995) *The Gender Impact of CCT in Local Government*, Manchester, Equal Opportunities Commission

- Financial Times 15.3.97
- Financial Times 11.9.97
- Financial Times 22.1.98
- Gosling, A. (1996) "Minimum Wages: Possible effects on the distribution of income", *Fiscal Studies*
- Gosling A, Machin S and Meghir C, (1996) Whatever has happened to the wages of men since the mid-1960s" *Fiscal Studies* 15, 1996
- Gray A, Normand C and Currie E, (1988) *Staff turnover in the NHS*, Centre for Health Economics
- Hills, J. (1998) *Income and Wealth, the latest evidence*, Joseph Rowntree Foundation
- Horrell, S. Rubery, J. and Burchell, B. (1990) *Gender and Skill. Work, Employment and Society*
- Hunter, L. C. and MacInnes, J. (1991) *Employers' Labour Use Strategies - Case studies* Department of Employment Research Paper 87
- Income Data Services, (1995) *Managing Labour Turnover*, Study 577 May
- Income Data Services Report 724, (1996) Nov
- Income Data Services Report 736 (1997) May
- Income Data Services Report 744, (1997) Oct

- Income Data Services Report 745, (1997) Sept
- Income Data Services Report 759, (1998) April
- Income Data Services report 765, (1998) Pay in fast food, July
- Independent 29.5. 1998
- Institute of Personnel Development, (1996) Labour Turnover Survey
- Levin-Waldman O.M. (1998) Automatic Adjustment of the Minimum Wage, Public Policy Brief No 42 The Jerome Levy Economics Institute
- Levin-Waldman, O.M. (1997) Linking the Minimum Wage to Productivity, Working Paper 219, The Jerome Levy Economics Institute,
- Levitan S and Belous R., (1979) More than subsistence: Minimum wages for the Working Poor, John Hopkins University press
- Lindley R.M. (1992) Women's employment: Britain in the Single European Market, esp Rubery et al, Women's Employment in Textiles and Clothing, HMSO
- Lissenburgh S. (1995) *Occupational Gender Segregation and Wage Determination*, Phd, University of Cambridge
- Low Pay Commission, (1998) The National Minimum Wage, June, TSO, Cm3976
- Morris, J. (1986) *Women Workers and the Sweated Trades: the origins of minimum wage legislation*. Aldershot, Gower

- National Joint Council for Local Authority Services (1987) *Review of Grading Structure: Assimilation and Assessment*. London
- Neathey, F. and Hurstfield, J. (1995) *Flexibility in Practice*, Manchester, Equal Opportunities Commission
- NEDC, (1989). *Recruitment Challenge: Tackling the Labour Squeeze in Tourism and Leisure*, A report by the Institute of Manpower Studies for the Tourism and Leisure Industry Sector Group
- OECD (1997) Submission to the Low Pay Commission, Economic Department Working Paper No 185,
- OECD, (1998) Employment Outlook, June
- Reich, R.B. (1998) A Better Way to raise the Minimum Wage
- Restaurateurs Association (1998) Evidence to the Low Pay Commission
- Sachdev S. and Wilkinson F. (1998) "Low Pay, the working of the Labour Market and the role of the minimum wage" Institute of Employment Rights
- Tawney, R.H. (1915) *Studies in the Minimum Wage No2 The establishment of minimum wage rates in the tailoring industry under the trade boards Act of 1909*, London, Ratan Tata foundation
- Treasury, (1997) *The Modernisation of Britain's Tax and Benefit system: No.1 Employment Opportunity in a Changing Labour Market*
- Walby, S. (1997) *Gender Transformations*, London, Routledge

Wall Street Journal 31.1.1995

Webb, S (1912) *The Legal Minimum Wage*, Fabian Society

Willborn, S.L. (1989) *A Secretary and a Cook: Challenging Women's Wages in the Courts of the United States and Great Britain*, New York, IR Press

Wilkinson, D. (1998) Towards a reconciliation of NES and LFS earnings data, *Labour Market Trends*, May

Wilkinson, F. (1981) *The Dynamics of Labour Market Segmentation*, London Academic Press especially Ryan, Rosenberg and Burchell

## **APPENDIX**

Appendix 1 Distribution of pay in low pay occupations in 1996 (£ an hour).

| Proportions with earnings lower than     | Males |       | Full-time Females |       |       | Part-time Females |       |       |
|--|-------|-------|-------------------|-------|-------|-------------------|-------|-------|
|  | £4.00 | £4.60 | £3.50             | £4.00 | £4.60 | £3.50             | £4.00 | £4.60 |
| <b>Clerical, Reception and Security</b>  |       |       |                   |       |       |                   |       |       |
| counter clerks and cashiers              | -     | -     | -                 | -     | -     | 7.0               | 16.4  | 23.8  |
| security guards and related              | 27.9  | 43.7  | 6.4               | 10.3  | 17.9  | -                 | -     | -     |
| accounts & wage clerks, book-keepers etc | -     | -     | -                 | -     | -     | 9.7               | 17.1  | 32.6  |
| clerks nec                               | -     | -     | -                 | -     | -     | 8.4               | 17.9  | 17.9  |
| receptionists/telephonists               | -     | -     | 7.8               | 16.0  | 37.6  | 9.2               | 21.8  | 45.1  |
| storekeepers and warehouse persons       | 8.2   | 21.8  | 5.6               | 16.4  | 42.5  | 12.3              | 31.5  | 53.8  |
| receptionists                            | -     | -     | 11.1              | 19.5  | 39.5  | 8.0               | 19.1  | 45.3  |
| <b>Hotels and Catering</b>               |       |       |                   |       |       |                   |       |       |
| chefs and cooks                          | 20.1  | 36.0  | 12.9              | 30.6  | 56.5  | 23.6              | 51.8  | 77.4  |
| counter hand, catering assistants        | 53.4  | 69.9  | 25.2              | 52.4  | 71.7  | 37.1              | 64.3  | 81.3  |
| kitchen porters                          | 58.6  | 80.3  | 32.7              | 64.7  | 83.3  | 46.7              | 75.7  | 90.0  |
| waiters, waitresses                      | -     | -     | 43.0              | 65.6  | 81.7  | 57.9              | 73.8  | 89.1  |
| bar staff                                | 47.7  | 64.4  | 46.4              | 67.2  | 82.0  | 76.0              | 89.6  | 94.9  |
| hotel porters                            | 53.5  | 69.0  | -                 | -     | -     | -                 | -     | -     |
| <b>Health and Education</b>              |       |       |                   |       |       |                   |       |       |
| nursery nurses                           | -     | -     | 14.1              | 21.4  | 29.0  | 22.1              | 32.0  | 37.7  |
| educational assistants                   | -     | -     | -                 | -     | -     | 8.3               | 23.5  | 52.2  |
| hospital ward assistants                 | -     | -     | 8.9               | 17.8  | 35.6  | -                 | -     | -     |
| dental nurses                            | -     | -     | 15.0              | 29.9  | 50.4  | -                 | -     | -     |
| care assistants and attendants           | 29.0  | 43.2  | 33.0              | 46.3  | 59.8  | 24.4              | 36.2  | 57.9  |
| other child care and related             | -     | -     | 48.4              | 60.4  | 74.7  | 25.0              | 64.5  | 78.6  |
| hospital porters                         | 21.1  | 42.2  | -                 | -     | -     | -                 | -     | -     |
| <b>Personal and Protective Services</b>  |       |       |                   |       |       |                   |       |       |
| bookmakers                               | -     | -     | -                 | 15.0  | 25.0  | -                 | -     | -     |
| caretakers                               | 6.5   | 27.2  | 4.0               | 20.0  | 46.0  | -                 | -     | -     |
| other protective and personal services   | 24.2  | 38.5  | 26.4              | 37.6  | 53.6  | 27.8              | 51.5  | 66.3  |
| cleaners, domestics                      | 37.1  | 56.5  | 29.2              | 47.9  | 67.4  | 34.5              | 63.8  | 83.4  |
| launders, dry cleaners, pressers         | 46.4  | 68.1  | 27.5              | 52.3  | 75.2  | 48.5              | 72.1  | 88.2  |
| hairdressers, barbers                    | -     | -     | 42.1              | 57.0  | 76.6  | -                 | -     | -     |
| lift and car park attendants             | 35.8  | 56.6  | -                 | -     | -     | -                 | -     | -     |
| <b>Retailing</b>                         |       |       |                   |       |       |                   |       |       |
| retail cash desk and checkouts           | 35.0  | 65.0  | 12.5              | 34.0  | 72.9  | 12.0              | 39.2  | 79.1  |
| sales assistants                         | 25.1  | 45.0  | 18.1              | 44.3  | 67.6  | 29.0              | 59.6  | 78.6  |
| shelf fillers                            | 27.3  | 43.6  | 17.4              | 47.8  | 87.0  | 9.7               | 48.3  | 77.2  |

|  | Males |       | Full-time Females |       |       | Part-time Females |       |       |
|--|-------|-------|-------------------|-------|-------|-------------------|-------|-------|
|  | £4.00 | £4.60 | £3.50             | £4.00 | £4.60 | £3.50             | £4.00 | £4.60 |
| <b>Food Preparation and Processing</b>       |       |       |                   |       |       |                   |       |       |
| other food, drink and tobacco ops            | 7.3   | 16.5  | 5.2               | 19.2  | 41.5  | -                 | -     | -     |
| fish mongers, poultry dressers               | 19.6  | 37.3  | 4.2               | 16.7  | 50.0  | -                 | -     | -     |
| bakery and confectionery process ops         | 18.2  | 33.3  | 17.8              | 33.3  | 56.6  | -                 | -     | -     |
| butchers, meat cutters                       | 21.0  | 38.5  | -                 | -     | -     | -                 | -     | -     |
| <b>Clothing and Footwear Manufacture</b>     |       |       |                   |       |       |                   |       |       |
| footwear workers                             | 4.6   | 16.1  | 14.8              | 35.2  | 53.7  | -                 | -     | -     |
| Sewing machinists etc                        | 14.9  | 23.4  | 22.5              | 40.0  | 62.1  | 25.3              | 45.5  | 64.6  |
| clothing cutters, milliners, furriers        | 21.2  | 36.5  | -                 | -     | -     | -                 | -     | -     |
| <b>Metal Manufacture</b>                     |       |       |                   |       |       |                   |       |       |
| assemblers/lineworkers (vehicle and metal)   | 8.8   | 5.6   | 4.0               | 15.9  | 29.4  | -                 | -     | -     |
| machine tool operatives                      | 3.8   | 9.2   | 1.9               | 17.0  | 39.6  | -                 | -     | -     |
| other assemblers/lineworkers nec             | 14.3  | 29.0  | 12.6              | 28.4  | 53.0  | -                 | -     | -     |
| press stamping and auto. machines            | 9.8   | 14.0  | 7.5               | 28.3  | 52.8  | -                 | -     | -     |
| assemblers/lineworkers (electrical)          | 9.9   | 23.3  | 7.1               | 17.2  | 45.5  | -                 | -     | -     |
| <b>Other Manufacture</b>                     |       |       |                   |       |       |                   |       |       |
| routine laboratory testers                   | 5.6   | 20.8  | 6.9               | 18.1  | 34.7  | -                 | -     | -     |
| glass products and ceramics makers           | 4.0   | 9.1   | 5.9               | 17.6  | 32.4  | -                 | -     | -     |
| other plant and machinery operatives         | 5.3   | 14.9  | 9.5               | 17.6  | 43.2  | -                 | -     | -     |
| other routine process operatives nec         | 4.6   | 11.3  | 13.6              | 25.0  | 45.5  | -                 | -     | -     |
| packers, bottlers, canners & fillers         | 16.8  | 30.7  | 15.4              | 32.3  | 48.0  | 28.4              | 41.7  | 64.2  |
| inspectors etc. other manufacturing          | 2.7   | 6.0   | 15.8              | 34.9  | 51.4  | -                 | -     | -     |
| plastic moulders and extruders               | 5.3   | 16.2  | 19.0              | 34.9  | 57.1  | -                 | -     | -     |
| <b>Agriculture, Horticulture and Fishery</b> |       |       |                   |       |       |                   |       |       |
| others in agriculture, forestry and fishing  | 26.2  | 38.5  | 37.1              | 53.2  | 74.2  | -                 | -     | -     |
| horticultural trades                         | 16.1  | 41.1  | -                 | -     | -     | -                 | -     | -     |
| farmworkers                                  | 16.4  | 37.6  | -                 | -     | -     | -                 | -     | -     |
| <b>Other Labourers</b>                       |       |       |                   |       |       |                   |       |       |
| all other labourers and related              | 16.7  | 37.3  | -                 | -     | -     | -                 | -     | -     |
| mates in woodworking trades                  | 18.8  | 53.1  | -                 | -     | -     | -                 | -     | -     |
| all non manual occupations                   | 2.9   | 5.8   | 3.2               | 7.0   | 13.6  | 12.1              | 25.4  | 39.5  |
| all occupations                              | 5.4   | 11.0  | 6.1               | 12.0  | 20.7  | 19.5              | 36.2  | 51.9  |
| all manual occupations                       | 8.5   | 17.3  | 19.1              | 34.6  | 53.1  | 34.2              | 57.6  | 76.4  |

Source New Earning Survey

**Key**

NEC = Not Elsewhere Classified

OPS = Operators



Appendix 2 Median earnings of low pay occupations in 1996 (£ an hour)

|  | Males | Full-time<br>Females | Part-time<br>Females |
|--|-------|----------------------|----------------------|
| <b>Clerical, Reception and Security</b>  |       |                      |                      |
| counter clerks and cashiers              | 7.74  | 6.81                 | 6.06                 |
| security guards and related              | 4.87  | 6.60                 | -                    |
| accounts & wage clerks, book-keepers etc | 7.44  | 6.15                 | 5.40                 |
| clerks nec                               | 6.33  | 5.79                 | 4.98                 |
| receptionists/telephonists               | -     | 5.08                 | 4.72                 |
| storekeepers and warehouse persons       | 5.64  | 4.86                 | 4.51                 |
| receptionists                            | -     | 4.86                 | 4.70                 |
| <b>Hotels and Catering</b>               |       |                      |                      |
| chefs and cooks                          | 5.26  | 4.43                 | 3.95                 |
| counter hands, catering assistants       | 3.95  | 3.93                 | 3.70                 |
| kitchen porters                          | 3.74  | 3.73                 | 3.56                 |
| waiters, waitresses                      | -     | 3.60                 | 3.38                 |
| bar staff                                | 4.06  | 3.50                 | 3.25                 |
| hotel porters                            | 3.91  | -                    | -                    |
| <b>Health and Education</b>              |       |                      |                      |
| nursery nurses                           | -     | 6.15                 | 5.28                 |
| educational assistants                   | -     | 5.71                 | 4.56                 |
| hospital ward assistants                 | -     | 5.02                 | -                    |
| dental nurses                            | -     | 4.51                 | -                    |
| care assistants and attendants           | 4.95  | 4.14                 | 4.32                 |
| other child care and related             | -     | 3.51                 | 3.85                 |
| hospital porters                         | 4.83  | -                    | -                    |
| <b>Personal and Protective Services</b>  |       |                      |                      |
| bookmakers                               | -     | 5.33                 | -                    |
| caretakers                               | 5.34  | 4.77                 | -                    |
| other protective and personal services   | 5.08  | 4.47                 | 3.90                 |
| cleaners, domestics                      | 4.35  | 4.02                 | 3.71                 |
| launders, dry cleaners, pressers         | 4.09  | 3.99                 | 3.50                 |
| hairdressers, barbers                    | -     | 3.71                 | -                    |
| lift and car park attendants             | 4.30  | -                    | -                    |
| <b>Retailing</b>                         |       |                      |                      |
| retail cash desk and checkouts           | 4.29  | 4.22                 | 4.11                 |
| sales assistants                         | 4.80  | 4.14                 | 3.80                 |
| shelf fillers                            | 4.84  | 4.02                 | 4.00                 |

|  | Males | Full-time Females | Part-time Females |
|--|-------|-------------------|-------------------|
| <b>Food Preparation and Processing</b>       |       |                   |                   |
| other food, drink and tobacco ops            | 6.18  | 4.90              | -                 |
| fish mongers, poultry dressers               | 4.92  | 4.68              | -                 |
| bakery and confectionery process ops         | 5.22  | 4.36              | -                 |
| butchers, meat cutters                       | 4.87  | -                 | -                 |
| <b>Clothing and Footwear Manufacture</b>     |       |                   |                   |
| footwear workers                             | 6.45  | 4.52              | -                 |
| Sewing machinists etc.                       | 5.71  | 4.30              | 4.19              |
| clothing cutters, milliners, furriers        | 5.01  | -                 | -                 |
| <b>Metal Manufacture</b>                     |       |                   |                   |
| assemblers/lineworkers (vehicle and metal)   | 7.85  | 5.52              | -                 |
| machine tool operatives                      | 6.85  | 4.75              | -                 |
| other assemblers/lineworkers nec             | 5.28  | 4.53              | -                 |
| press stamping and auto. machines            | 6.15  | 4.52              | -                 |
| assemblers/lineworkers (electrical)          | 5.78  | -                 | -                 |
| <b>Other Manufacture</b>                     |       |                   |                   |
| routine laboratory testers                   | 5.86  | 5.23              | -                 |
| glass products and ceramics makers           | 6.73  | 5.10              | -                 |
| other plant and machinery operatives         | 6.42  | 4.93              | -                 |
| other routine process operatives nec         | 6.54  | 4.88              | -                 |
| packers, bottlers, canners & fillers         | 5.46  | 4.67              | -                 |
| inspectors etc. other manuf.                 | 6.69  | 4.54              | -                 |
| plastic moulders and extruders               | 5.90  | 4.52              | 4.23              |
| <b>Agriculture, Horticulture and Fishery</b> |       |                   |                   |
| others in agriculture, forestry and fishing  | 4.84  | 3.92              | -                 |
| horticultural trades                         | 4.81  | -                 | -                 |
| farmworkers                                  | 4.81  | -                 | -                 |
| <b>Other Labourers</b>                       |       |                   |                   |
| all other labourers and related              | 5.30  | -                 | -                 |
| mates in woodworking trades                  | 4.52  | -                 | -                 |
| all non manual occupations                   | 10.29 | 7.16              | 5.07              |
| all occupations                              | 7.91  | 6.55              | 4.51              |
| all manual occupations                       | 6.32  | 4.49              | 3.78              |

Source: New Earning Survey

Key

NEC = Not Elsewhere Classified

OPS = Operators