

The Low Pay Commission and the National Minimum Wage

Presentation to NEDLAC

Saturday 20th June 2015

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Overview

The Low Pay Commission and the National Minimum Wage

1. Implementation of the National Minimum Wage in the UK
2. The evidence on the NMW
3. Setting the rate
4. Other considerations
5. Lessons from the UK experience

1. Implementation of the NMW

The Low Pay Commission



- **Set up in 1997** to define the National Minimum Wage and recommend its introductory level
- **Independent of Government**
- **Social Partnership** based
 - 9 Commissioners
 - Balance - 3 independents, 3 with employer experience and 3 with union experience
 - Appointed as individuals (NOT MANDATED) through advertised public appointments process
 - All Commissioners have equal vote
 - To date, always unanimously agreed recommendations
- **Secretariat** of 8 individuals
 - Analysis, Policy and Admin

The aim of the LPC

To help as
many low
paid workers
as possible...

...without any
significant
adverse impact
on
employment

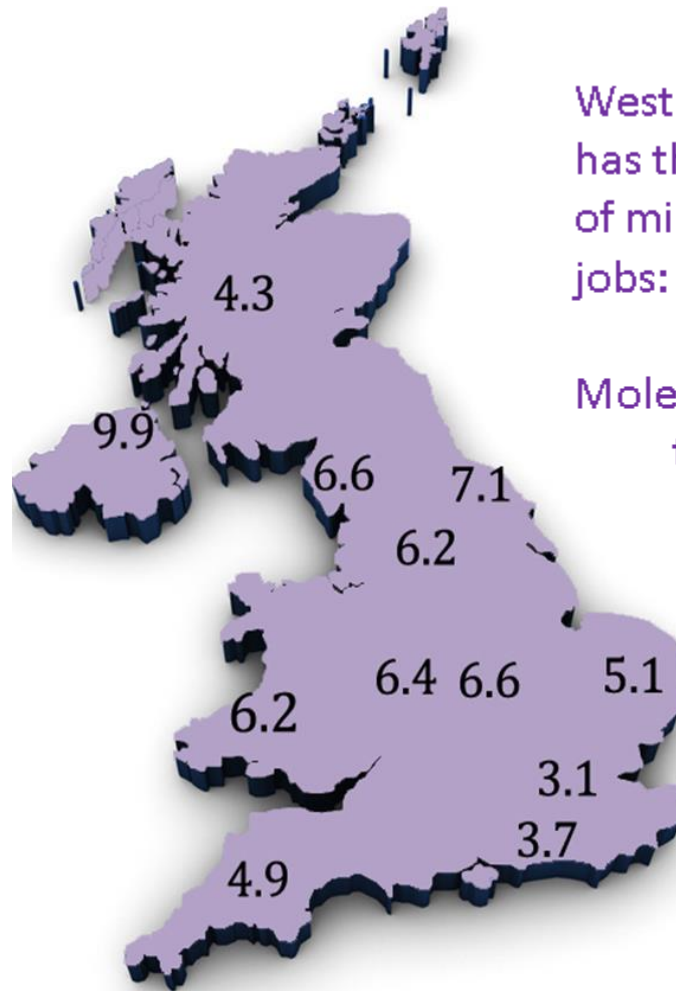
- **No specific aim/objective** under the NMW Act 1998, but given specific **remit by Government each year**
- **HOWEVER, the LPC itself set out its objective in the 2012 Report:** “Our aim in making our recommendations each year is to help as many low-paid workers as possible without **any significant adverse impact** on employment or the economy.”

Group	Current Rate (<u>to</u> October 2015)
Adults	£6.50
18-20s	£5.13
16-17 year olds	£3.79
Apprentices*	£2.73

- **National Minimum Wage Act 1998**
 - NMW introduced in **April 1999**
- **Simple**
 - It is **National** (the same across the UK)
 - No differences by industry, occupation or firm size
- It does vary by **AGE** (and apprenticeship)
- It is a **Wage Floor NOT** a ‘**Living Wage**’
- Set in **Hourly** pay terms
- It is **Cash** (benefits-in-kind except accommodation do not count)
- It is **COMPREHENSIVE** – it covers nearly all workers and types of contract, with few exemptions

Minimum Wage Workers and Jobs

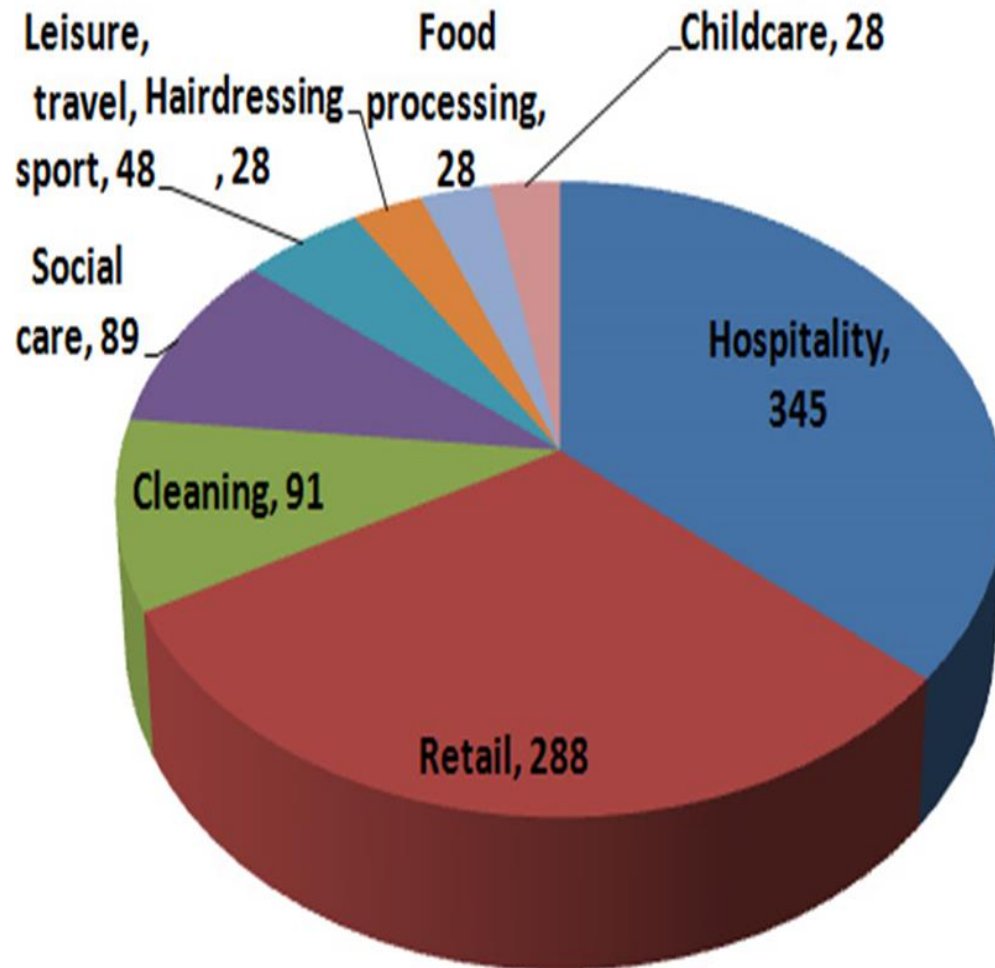
- 1.4 million minimum wage jobs in UK:
 - 5.3% of employees
- “Bite”
 - NMW set at 54% of median wage



West Lancashire has the **highest** % of minimum wage jobs: **21.4%**

Mole Valley in Surrey has the **lowest** % of minimum wage jobs: **0.3%**

Impact in different sectors

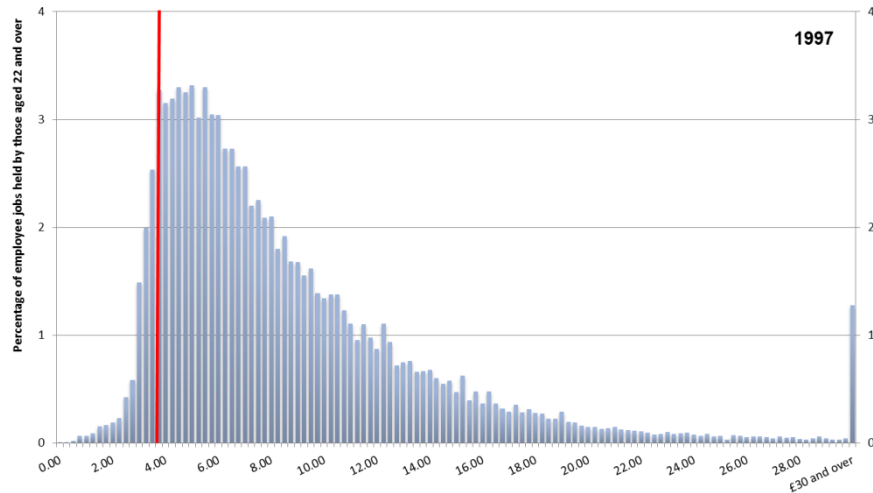


2. The evidence on the NMW

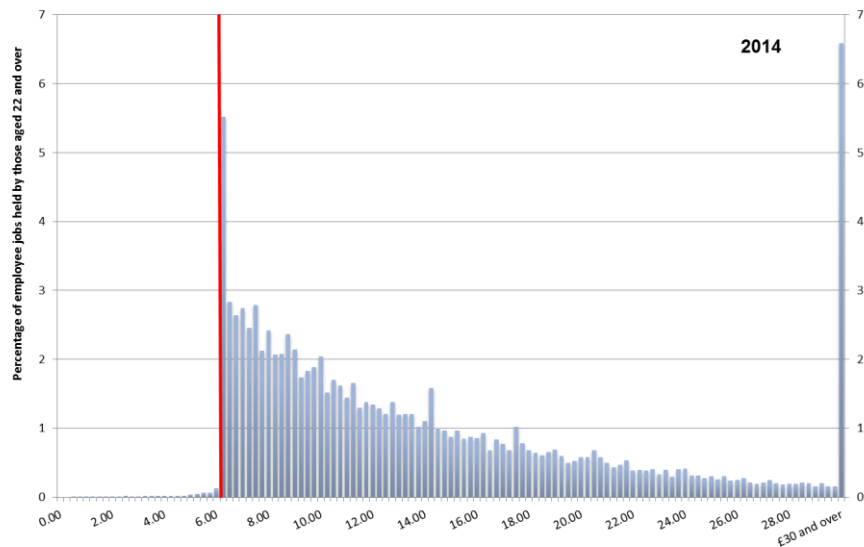
- When the NMW was introduced the two most major concerns were that it would lead to:
 - Job loss
 - Wage inflation (feeding into price inflation)
- “...coming up with a minimum wage that will not seriously harm the economy, and destroy jobs, will require the wisdom of Solomon – or extraordinary luck.”

The Economist (5 June 1997)

Eradication of extreme low pay



A significant proportion of workers earned less than £3.60 an hour before the NMW was introduced.



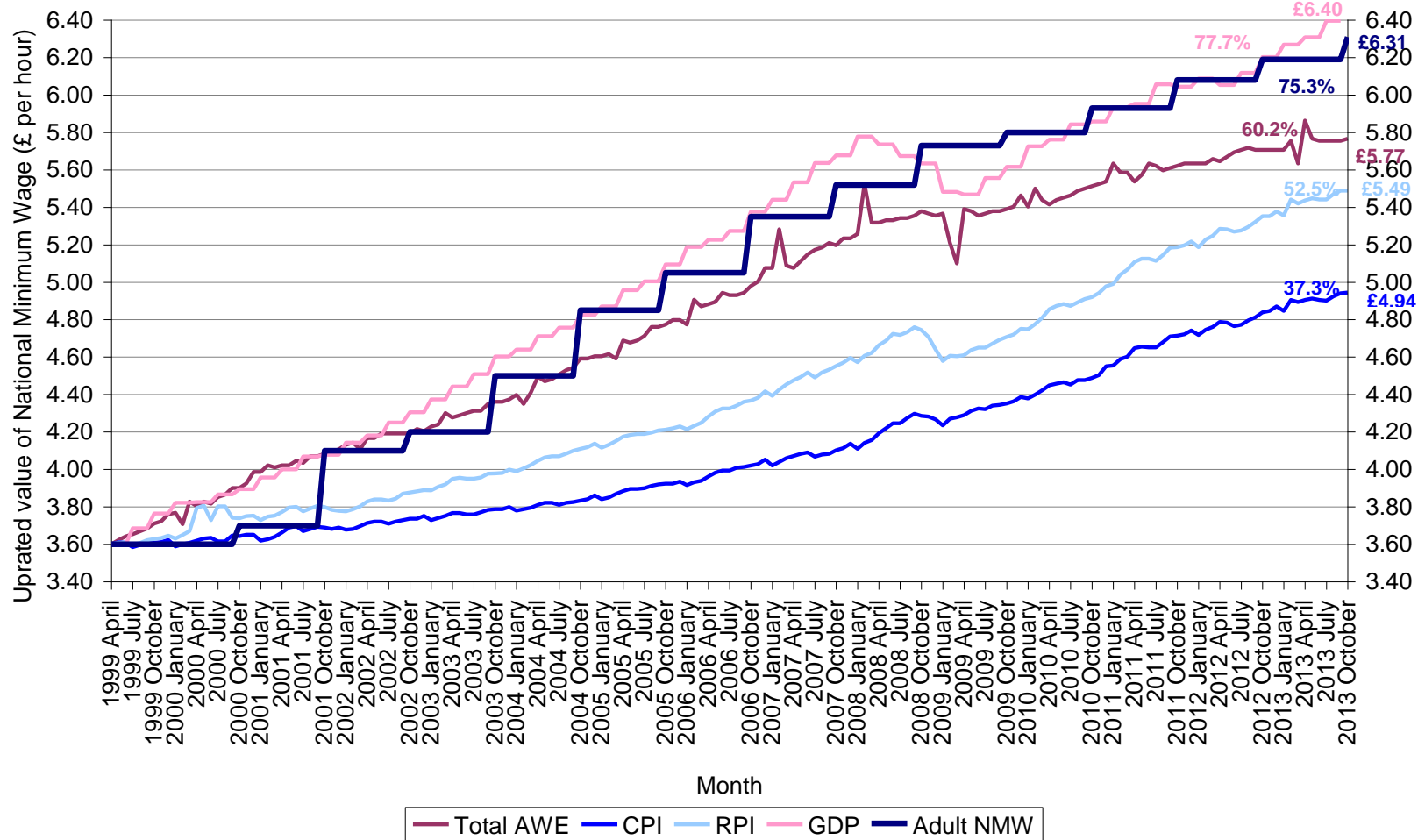
The NMW was at £6.31 (1 October 2013). Less than 1% earn below the NMW.

- **LPC has commissioned around 140 research projects since 1999 on the impact of the NMW.**
- **Raised the pay** of some 5% of employees
 - modest “spillovers” onto wages above the minimum but no Wage-Price spiral as feared
- **Little evidence of any adverse impact on employment** of individuals or on employment levels in the lowest-paid areas
 - Some evidence of falling job retention rates among part time female workers
 - A small reduction in hours worked
- **Small increase in prices to consumers**
- **Squeeze on profits**
- **Pay structures** adjusted and simplified.

The NMW: A flexible approach

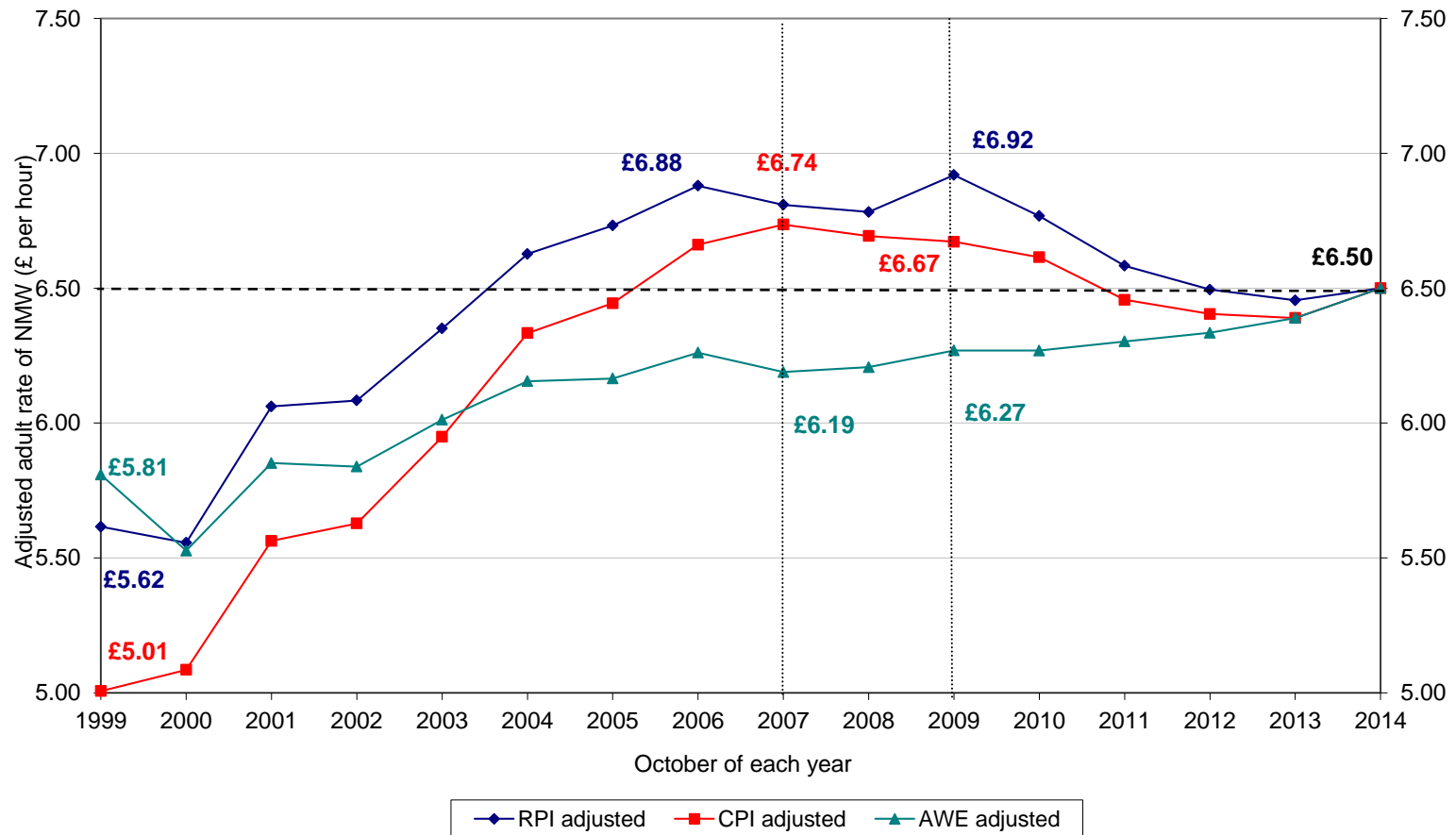


Long-term record: between 1999 and 2013, the adult NMW grew faster than both average earnings growth and price inflation



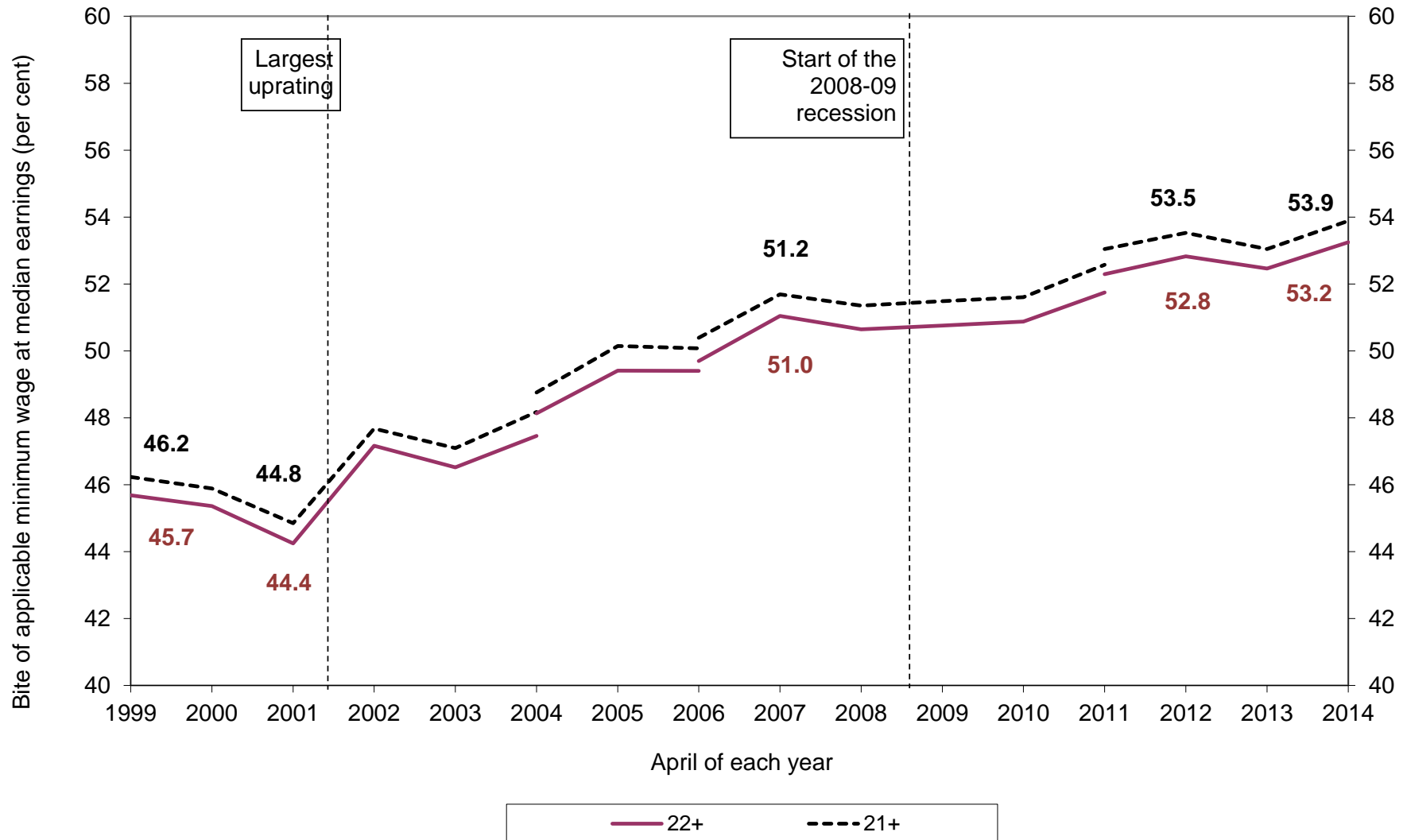
Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), 1999, AWE total pay (KAB9), 2000-2013, RPI (CHAW), 1999-2013, and CPI (D7BT), 1999-2013, monthly; and GDP (YBHA), 1999-2013, quarterly, seasonally adjusted (AWE, AEI and GDP only), UK (GB for AWE and AEI).

Short-term record: criticised for fall in real-terms value... but relative value at peak



Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), 1999, AWE total pay (KAB9), 2000-2014, RPI (CHAW), 1999-2014, and CPI (D7BT), 1999-2014, monthly; 1999-2013, quarterly, seasonally adjusted (AWE and AEI only), UK (GB for AWE and AEI).

Thus, the bite (value of NMW vs average earnings) is at its highest ever... 53.9% for 21+s



Source: LPC estimates based on ASHE without supplementary information, April 1999-2004; ASHE with supplementary information, April 2004-2006; ASHE 2007 methodology, April 2006-2011; and ASHE 2010 methodology, April 2011-2014, standard weights, UK.

Note: 21 year olds became entitled to the adult rate in October 2010.

3. Setting the Rate

Recommending the rate

- **Evidence-based judgement not a formula**
 - The impact so far
 - State of and prospects for the economy and earnings
 - Stakeholder views, international evidence
 - Impact of other Government legislation
- **Evidence gathering**
 - In-house analysis & commissioned research
 - Formal consultation (Written and Oral evidence)
 - Visits around the UK
- **A particular focus on sensitive areas :**
 - **Low paying industries/ occupations:** retail; hospitality; social care; cleaning; security; agriculture; hairdressing; textiles and clothing; leisure
 - **Small firms**
 - **Low-paid employees:** women; part-timers; older workers; ethnic minorities; migrants; disabled people; unqualified; young people; apprentices



Factors considered in deliberation

GDP growth	Is growth strong? Are forecasts being revised up or down?
Employment growth - low paying sectors	Is job growth strong? Any warning signs in exposed sectors? Vacancies and redundancies?
Wage levels, inflation and forecasts	Is wage growth strong or weak (settlements, AWE, ASHE)?
Productivity levels and forecasts	Is productivity growth strong or weak?
Past record	What's the cumulative impact of previous increases: how does their level compare to the out-turn of forecasts informing those recommendations
Bite	What's happened to the value of the NMW relative to median earnings (overall, in low-paying sectors, in SMEs). (Particularly considered in relation to employment)
Coverage	What's happening to coverage?
Other business costs	Are other costs increasing or reducing?
Stakeholder evidence	How strongly are stakeholders calling for/ opposing increases? Issues in particular sectors like retail and hospitality and social care

What is the Process for Setting the NMW?

Date	Stage	Detail
April-June	Remit	<ul style="list-style-type: none"> • Monitor and assess impact of the minimum wage • Make recommendations for future rates • Review specific issues (e.g. apprentices, young people)
March-December	Gather evidence	<ul style="list-style-type: none"> • Stakeholders, visits programme, in-house analysis, commissioned research, formal oral and written evidence
Dec-March	Agree recommendations and write report	<ul style="list-style-type: none"> • Constructive spirit of problem solving • Debate guided by the evidence
End Feb	Send report to key ministers	<ul style="list-style-type: none"> • UK Business Dept considers recommendations and seeks collective agreement
March	Government decides to accept or reject	<ul style="list-style-type: none"> • Government must lay down reasons in Parliament for rejection of any recommendations
October	NMW changes take effect	

4. Other considerations

Compliance and enforcement



In April 2014, 0.8% or 208,000 employees aged 21 and over were paid less than the NMW

- **Represents almost 20% of NMW workers**

Enforcement Carried out by UK Tax authority (HMRC)

- believe there is continued under reporting of unlawful non-payment of the NMW, especially within the informal economy.
- target key sectors such as social care and apprentices
- NMW helpline, inspection powers, name and shame employers.

In-Work benefits have high withdrawal rates

- increases in minimum wage have little pass through to higher incomes for some groups of workers
- Wage floor prevents employers passing using tax credits as buffer for pay reductions



5. Lessons from the UK experience

- The Low Pay Commission attributes its record to:
 - ✓ Evidence-based decision making
 - ✓ Widespread consultation and extensive visits
 - ✓ Independence from Government, constituents and pressure groups
 - ✓ Social partnership (all reports/recommendations have been unanimous)
 - ✓ Opportunity and privacy for LPC Commissioners to listen, discuss, persuade, and negotiate consensus
 - ✓ Cautious introduction and subsequent improvement
 - ✓ High quality research drawing on a wide independent research base
 - ✓ Strong legal framework and strong enforcement

Clear remit to raise pay without harming employment prospects



Low Pay Commission

“Evidence is mounting that moderate minimum wages can do more good than harm.”

“Bastions of orthodoxy, such as the OECD, a rich-country think tank, and the International Monetary Fund now assert that a moderate minimum wage does not do much harm and may do some good. Their definition of moderate is 30-40% of the median wage. Britain's experience suggests it might even be a bit higher. The success of the Low Pay Commission points to the importance of technocrats rather than politicians setting wage floors.”

The Economist (24 November 2012)

- [illegible]

Thank You!