

The National Minimum Wage

First Report of the Low Pay Commission





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Presented to Parliament by
the President of the Board of Trade
by Command of Her Majesty
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Foreword

by the

Chairman of the Low Pay Commission,

Professor George Bain

- 1 The Commission has had a substantial and historic task. The idea of a National Minimum Wage has for many years been subject to fierce political debate in the UK. Our appointment by the Government in July 1997 signalled the resolution of that debate.
- 2 The Commission embodies the principle of social partnership: its nine members are drawn from employer, employee and academic backgrounds. The way in which we have worked and, in particular, that we have – after receiving evidence and after discussion and debate – reached unanimous agreement on the whole range of issues we have covered, is unambiguous evidence that social partnership can work. It is an approach which we firmly believe should be sustained.
- 3 Our job has been to recommend the level at which the National Minimum Wage should be introduced, and how it should apply to young workers. We are very conscious that our recommendations will directly affect hundreds of thousands of businesses, and many more individuals, throughout the country. Our terms of reference rightly emphasise the importance of understanding the economic and social implications of our recommendations. Our recommendations are also made against a background of emerging policy on related Government initiatives. We are determined that the National Minimum Wage should complement and underpin the Government's wider welfare-to-work policies, including its New Deal initiatives.

- 4 It was essential for us to understand what the National Minimum Wage will mean for individuals and businesses across the UK. In addition to undertaking research and studying written evidence, we have held over two hundred meetings throughout the country. We have met overloaded advice services, committed managers sometimes in struggling businesses, and low-paid workers and unemployed young people on bleak estates. They have brought home to us the impact which our report, and the decisions that flow from it, will have throughout Britain.
- 5 A National Minimum Wage must address the worst cases of exploitation. Some homeworkers we met provided vivid examples. We wanted to go further and to try to make a difference to a wider group of low-paid workers, and those out of work. There needs to be a real incentive to make work pay, without unnecessarily jeopardising job opportunities.
- 6 We were equally determined to make recommendations which business could afford. No one wants a wage that cannot be paid. We were struck by the extent to which businesses welcomed the general principle of the National Minimum Wage. Their focus, understandably, was on making sure that it was workable. Businesses wanted to be clear what counted towards the National Minimum Wage and what did not. They wanted it to be enforceable, and not riddled with loopholes which could be exploited by unscrupulous competitors. We very much shared their objectives.
- 7 The length and, we hope, the content of this report shows the extent to which we have addressed the range of complex issues which underlie a National Minimum Wage. It would not have been possible without the exceptionally positive response that we received from a wide spectrum of interests and individuals. We are grateful to them. We are also

grateful to our Secretariat for their initiative, hard work and excellent organisation. We believe our conclusions represent a coherent package which is both prudent and straightforward. Above all, it should benefit many businesses and workers throughout the UK.

- 8 US legislators, on passing the Clayton Act in 1914, insisted that labour is not a commodity. We have received very much the same message this last year from employers and workers throughout the UK. We met many progressive employers who testified to the commercial advantages of training and paying an attractive rate for the job. We met workers and unemployed who responded positively to the thrust of welfare-to-work policies. Both groups want protection from unfair pay and from competition based upon unfair pay. They also want to be confident that the National Minimum Wage will be enforced.
- 9 The Commission has reflected these perceptions. Despite our different starting points, we have reached unanimous agreement on issues which, until recently, would have proved impossibly controversial. We feel privileged to have been asked to participate in the introduction of the National Minimum Wage, and hope that we can make a continuing contribution as it comes into effect. It is an important part of making work pay, and the National Minimum Wage must continue to prove workable and worthwhile.



The Commissioners

Professor George Bain (Chairman)
President and Vice-Chancellor,
The Queen's University of Belfast



Professor William Brown
Professor of Industrial Relations,
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Bill Callaghan
Chief Economist,
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University of London Institute of Education,
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Executive Summary

We advise that the appropriate rate for the National Minimum Wage should be £3.70 per hour in June 2000. Consistent with introducing the wage at an earlier date and our aim to proceed with prudence, however, we recommend that the initial rate of £3.60 per hour should be introduced in April 1999. We recommend that an initial Development Rate of £3.20 per hour should be introduced in April 1999. Our advice is that the appropriate Development Rate in June 2000 should be £3.30 per hour.

Chapter 1: Introduction

- 1 The independent Low Pay Commission was established by the Government to recommend to the Prime Minister the coverage and initial level of the National Minimum Wage. It brought together representatives of employers and employees, as well as academics. We achieved unanimous recommendations through social partnership. This is the first time in the UK that a National Minimum Wage has been introduced, covering all business sectors and regions of the country.
- 2 The National Minimum Wage should support a competitive economy, be set at a prudent level, be simple and straightforward, and make a difference to the low paid.

Chapter 2: What We Did

- 3 We have undertaken extensive consultation, which supplemented our analysis of high quality and extensive research and official data. We received nearly five hundred written submissions, and took oral evidence from a wide range of representative organisations. And we undertook a substantial programme of visits to over sixty cities, towns and villages throughout the UK, where we heard directly from small firms, rural businesses, local outlets of national companies, low-paid workers, the unemployed, and some operating on the fringes of the formal economy.

Chapter 3: Pattern of Low Pay

- 4 Over the past twenty years there has been a growth in earnings inequality. This has led to a substantial degree of in-work poverty and dependence on social security benefits to supplement low wages.

- 5 Low pay is more prevalent among certain groups of individuals, especially women and young people. It is closely associated with particular working patterns, such as part-time work and homeworking. And low pay is concentrated in certain business sectors – particularly in service industries, such as hospitality, retail, business services and social care – and in small firms. Low pay is found in all regions. Differences between most regions are generally small; more substantial variation exists within individual regions.

Chapter 4: Defining the Wage

- 6 Most low-paid workers receive only a basic rate of pay, but a minority have more complex pay structures or are paid on an incentive basis. To define which components of pay could be taken into account in the National Minimum Wage, we considered various pay systems across business sectors. The definition should be simple and fair, easy to comply with and straightforward to enforce. Payments based on output, productivity or performance should count towards the National Minimum Wage, including, for example, payment by results, commission, bonuses, and tips and gratuities paid through the payroll.
- 7 In whatever way workers' pay is defined or whatever hours they work, only pay for 'standard' working should count. Hence employers cannot satisfy their obligation to pay the National Minimum Wage by including benefits and premium payments, such as overtime and shift premia. The only benefit-in-kind that should be taken into account is accommodation provided by the employer, for which an offset may be allowed.
- 8 All actual working time should be covered by the National Minimum Wage. Compliance should be measured by averaging pay over the worker's normal pay period up to a maximum of one calendar month.

Chapter 5: Training and Development

- 9 Training and development improve people's employability and their ability to command higher pay. Throughout our consultation we were told that our recommendations should positively support training.

- 10 Young people are more likely than older people to be unemployed or in low-paid jobs. They must receive the necessary coaching, experience and training to prepare them for a working life. The evidence suggests that 16 and 17 year olds should not be regarded as full participants in the labour market; they should be in education or training. Apprentices are on a structured programme of training that provides recognised, transferable skills leading to better employment prospects. Young people aged 16 and 17 and those on formal apprenticeships should therefore be exempt from the National Minimum Wage.
- 11 There is no significant evidence that employers use different age-related policies when paying workers aged 21 and over. But applying a full National Minimum Wage for all aged 18 and over would lead to a particularly large increase in the pay of many young workers, which could cause excessive cost increases and threaten jobs.
- 12 Being cautious when the rate is first introduced, and with concern for job opportunities, we concluded that a Development Rate lower than the full rate of the National Minimum Wage should form the minimum rate for 18–20 year olds. Training is particularly important for this age group, and employers and government need to work to improve education and training strategies for them. We propose to monitor the progress of the Development Rate with the longer term expectation of linking it only to formal, accredited training.
- 13 The acquisition of skills remains a priority for workers of all ages, especially those moving to a new sector or returning to work. To avoid the National Minimum Wage becoming a barrier to the receipt of structured training, and to provide an incentive for employers to train, workers aged 21 or over on accredited training courses may be eligible for the Development Rate for a maximum of six months when beginning a new job with a new employer. The Government has emphasised that participants in the New Deal should receive the going rate for their job. Those participating in the employer option of the New Deal who are receiving accredited training will be eligible for the Development Rate, in the same way as other workers.

Chapter 6: Choosing the Rate

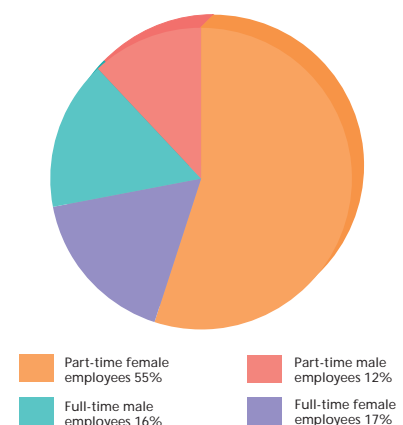
- 14 We had to form a judgment about the balance between a high National Minimum Wage, which would make a more substantial difference to the low paid, and the risk that jobs might be lost or that goods and services might become more expensive.
- 15 A wide range of evidence – on pay differentials, business costs, competitiveness, inflation, employment and public sector finances – helped us to determine the most likely effects of the National Minimum Wage. We also considered the implications of other statutory minimum wage regimes, notably the former Wages Councils in the UK, and international systems.
- 16 Inflationary pressures will depend on a range of dynamic adjustments in the economy, including the extent to which there is pressure to restore pay differentials. At the rate we recommend, restoration of differentials should be limited, although this will vary from company to company reflecting diverse business circumstances.
- 17 The costs to business will vary substantially, both between and within sectors. We took careful account of evidence about the costs to particular sectors, such as social care and business services, as well as the higher incidence of low pay among small firms and the greater difficulties they face in absorbing higher costs. Most business sectors will not be directly affected by the National Minimum Wage. Increased costs in some low-paying sectors, however, such as cleaning and security, may affect other industries across the economy to a limited extent. The price consequences within business sectors are likely to be small and will depend on the particular competitive pressures that firms face.
- 18 Judgment about the effects of the National Minimum Wage on employment must take into account the potential for business re-organisation, and productivity and efficiency improvements, depending on individuals' choices about how to react. It is likely that the impact will be greater on the structure of employment than on its level; in particular, firms which are inefficient or which offer low value-added goods and services may need to re-organise working practices. Equally, more efficient firms and those offering higher added-value can be expected to benefit.

- 19 The effects on public finances depend on changes in the local and central government wage bill, the price of purchased goods and services, and tax revenues and benefit expenditure. The greatest impact on government services is likely to be in the social care sector, with more limited costs arising elsewhere in local government and in the NHS. Taking account of reduced in-work benefit costs and increased revenues, the overall effect on public finances is likely to be broadly neutral.
- 20 The National Minimum Wage should be introduced at a rate which offers real benefits to the low paid, while avoiding unnecessary risks to businesses and to jobs. We advise that the appropriate rate for the National Minimum Wage should be £3.70 per hour in June 2000. Consistent with introducing the wage at an earlier date and our aim to proceed with prudence, however, we recommend that the initial rate of £3.60 per hour should be introduced in April 1999. We recommend that an initial Development Rate of £3.20 per hour should be introduced in April 1999. Our advice is that the appropriate Development Rate in June 2000 should be £3.30 per hour.

Chapter 7: Assessing the Impact

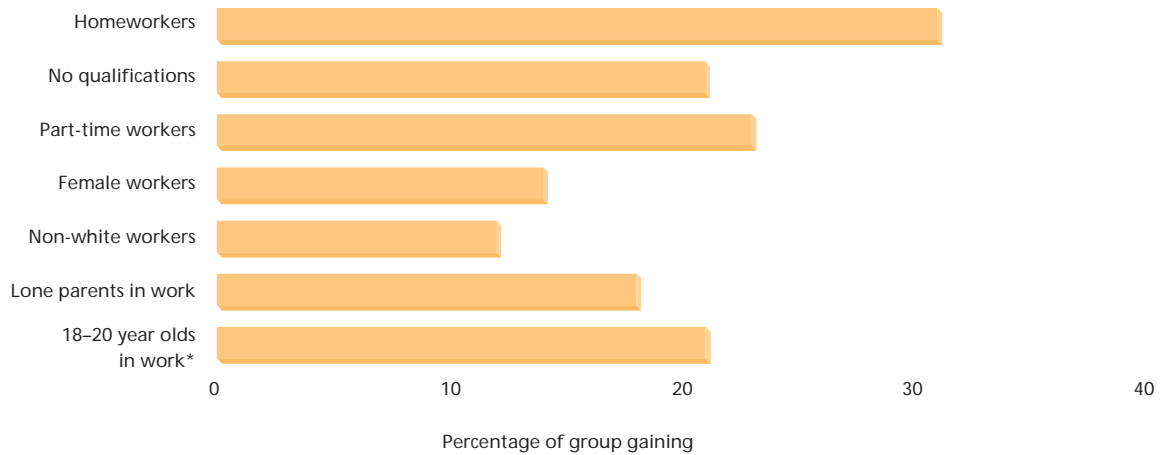
- 21 Despite progress in reconciling different statistical bases, the impact of the National Minimum Wage cannot be predicted precisely. Nevertheless, our cautious assessment is that around two million people will benefit from the National Minimum Wage immediately when it is introduced, which is about 9 per cent of employees. Some 1.5 million of these will be women, more than half of whom work part-time.
- 22 Over one-third of homeworkers and nearly 20 per cent of lone parents who work should receive a wage increase, as well as over 10 per cent of ethnic minority workers. At the recommended Development Rate, some 20 per cent of working 18–20 year olds will benefit.

Make-up of Groups Gaining
by Sex and Employment Status



Source: Based on ONS central estimate method, Spring 1997

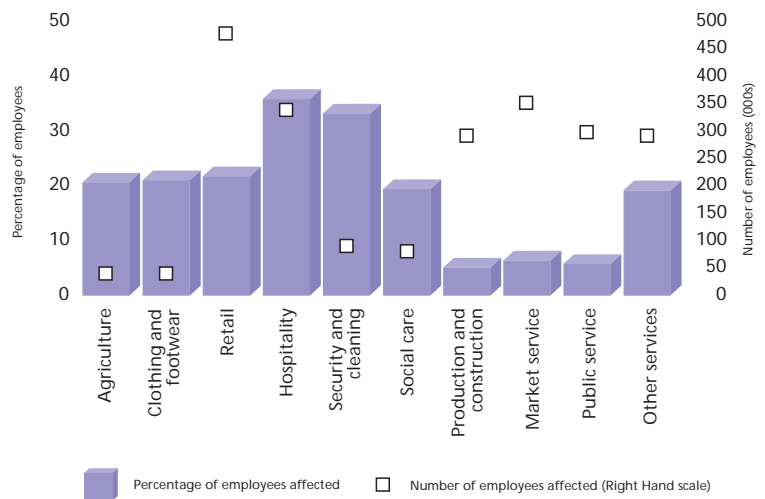
Groups Gaining from the National Minimum Wage



Source: LFS, Autumn 1997 except * – based on ONS central estimate method

23 Overall, the National Minimum Wage will increase the nation’s wage bill by little over 0.5 per cent. For the vast majority of businesses, the increase will be manageable. The most substantial increases fall in the retail and hospitality sectors, and smaller firms are more likely to be affected.

Percentage of Employees Affected by the National Minimum Wage, by Industry



Source: LFS, Autumn 1997

Chapter 8: Implementing and Enforcing

- 24 Employers and workers both argued strongly that the National Minimum Wage must be implemented and enforced effectively. Some businesses have already started to prepare for its introduction, and the period between announcement and our proposed implementation date, April 1999, will allow time for others to adjust. Clear information and advice to businesses, particularly smaller enterprises, and to employee organisations is essential; good communication will assist enforcement.
- 25 The simplicity of our recommendations will assist self-enforcement. An existing agency (e.g. the merged Contributions Agency and Inland Revenue) should be given the task of enforcement, targeting companies least likely to comply, especially those on the fringes of the formal economy.
- 26 It will be important for us to assess the impact of our recommendations through effective monitoring and evaluation. The National Minimum Wage should be reviewed within two years of its introduction by the Commission.

Chapter 9: Conclusion

- 27 Our recommendations form a coherent package. They were agreed unanimously through social partnership. We believe they are simple and straightforward, prudent and supportive of a competitive economy. We view the introduction of the National Minimum Wage as a key element of the Government's wider reforms, which aim to make work pay and help people move from welfare to work.
- 28 Introducing a *minimum* for wages is not a pay policy, nor is it the 'going rate' for pay. Successful employers will continue to pay well above this floor. Our proposals offer progress with prudence. They fully recognise business realities, while also removing the worst cases of exploitation and making a difference to a wider group of workers. Continuing review and periodic uprating of the wage will ensure that its benefits continue to be felt well into the new millennium.

Summary Table

Estimated Coverage of the National Minimum Wage			
Type of Worker	Numbers covered (000s)	Proportion of group affected (%)	Increase in group wage bill (%)
All 18+	2,050	9	0.6
18-20	235	21	3.9
21+	1,815	8	0.6
Male full-time workers	320	3	0.3
Male part-time workers	240	26	3.0
Female full-time workers	340	5	0.7
Female part-time workers	1,150	22	2.7

Notes:

Figures are based on Office for National Statistics (ONS) central estimate method, using combined New Earnings Survey (NES) and Labour Force Survey (LFS) for Spring 1997.

Estimates assume all 18–20 year olds are paid the Development Rate.

Initial rates of £3.60 and £3.20 per hour for April 1999 have been deflated by the Retail Prices Index to £3.40 and £3.00 per hour.

Recommendations

Defining the Wage

- 1 The National Minimum Wage should apply to the gross amount of those earnings that are defined as included in its scope. The amount should be calculated before tax, National Insurance and other appropriate authorised deductions are made. (para. 4.7)
- 2 Incentive payments should be included in the earnings that count towards the National Minimum Wage. All pieceworkers must, whatever the piece rate set and output achieved, be paid no less than the National Minimum Wage on average for the pay reference period. (para. 4.15)
- 3 Homeworkers and others paid by output, rather than by time, must be paid at least the National Minimum Wage on average for the pay reference period, with employers being able to demonstrate that they have evaluated rates paid to homeworkers to confirm compliance with the National Minimum Wage. (para. 4.16)
- 4 Incentive payments should only count in the pay period in which they are received, which may not necessarily be the period in which they are earned. (para. 4.17)
- 5 Any service charge or centrally organised system of distributing tips and gratuities whereby workers receive their share through the payroll, such as the 'tronc', should be included in the National Minimum Wage. (para. 4.18)
- 6 Cash tips paid directly by customers to staff should be excluded from calculation of the National Minimum Wage. (para. 4.19)
- 7 Premium payments for overtime and shifts should be excluded from the definition of earnings for the National Minimum Wage. When calculating compliance, only standard pay for overtime and shift hours should be counted. (para. 4.23)
- 8 Allowances and supplements should be excluded from the definition of the National Minimum Wage. (para. 4.26)
- 9 With the exception of accommodation, benefits should be excluded from the calculation of the National Minimum Wage. (para. 4.28)

- 10 An offset should be allowed where accommodation is provided as a benefit-in-kind. In order to protect workers from unreasonable charges, however, a maximum figure of £20 per week should be set for any deduction for the cost of the accommodation. The operation of this offset should be monitored and consideration given to phasing it out in the longer term. (para. 4.30)
- 11 The actual working time definition should define what constitutes working time for the purposes of the National Minimum Wage. The National Minimum Wage should also apply to all working time when a worker is required by the employer to be at the place of work and available for work, even if no work is available for certain periods. (para. 4.33)
- 12 For hours when workers are paid to sleep on the work premises, workers and employers should agree their allowance, as they do now. But workers should be entitled to the National Minimum Wage for all times when they are awake and required to be available for work. (para. 4.34)
- 13 The pay reference period over which eligible earnings may be averaged for the National Minimum Wage should be the normal pay period, as agreed between worker and employer, up to a maximum of one calendar month. (para. 4.38)

Training and Development

- 14 All those aged 16 and 17 should be exempt from the National Minimum Wage. (para. 5.10)
- 15 All those on apprenticeships should be exempt from the National Minimum Wage. (para. 5.16)
- 16 A minimum Development Rate should be available for 18–20 year olds. (para. 5.48)
- 17 A Development Rate for those aged 21 or over should be available for up to a maximum of six months for workers beginning a new job with a new employer and who are receiving accredited training. (para. 5.53)

Choosing the Rate

- 18 We advise that the appropriate rate for the National Minimum Wage should be £3.70 per hour in June 2000. Consistent with introducing the wage at an earlier date and our aim to proceed with prudence, however, we recommend that the initial rate of £3.60 per hour should be introduced in April 1999. (para. 6.112)
- 19 We recommend that an initial Development Rate of £3.20 per hour should be introduced in April 1999. Our advice is that the appropriate Development Rate in June 2000 should be £3.30 per hour. (para. 6.114)

Implementing and Enforcing

- 20 The National Minimum Wage should commence in April 1999. (para. 8.9)
- 21 Employers should be obliged to display on pay slips both the National Minimum Wage and details to enable workers to confirm readily whether they have received the statutory minimum. (para. 8.14)
- 22 An existing government agency should be asked to take on the responsibility of verifying employers' compliance with the National Minimum Wage. (para. 8.17)
- 23 Employers should be encouraged to display details of the National Minimum Wage prominently in the workplace. (para. 8.22)
- 24 There should be a review of the National Minimum Wage, in the first instance, within two years of its introduction, to examine its initial impact and to assess its future level, definition and possible exceptions. (para. 8.26)

1 Introduction

The Government appointed us to the Low Pay Commission to make recommendations on the coverage and initial level of a National Minimum Wage. Certain social and economic issues were particularly relevant to the task: inequality of earnings has grown in the UK; businesses need to remain competitive; smaller firms and certain business sectors are particularly sensitive to increased costs; and there is a considerable diversity in pay and employment practices. The National Minimum Wage should make a difference to low-paid workers and support a competitive economy. It should be simple and straightforward and be set at a prudent level.

Our Task

- 1.1 The Government established the Low Pay Commission in July 1997 and appointed us as Commissioners. We are drawn from a range of backgrounds: employer, employee and academic. Our task is to make recommendations on the coverage and initial level of a National Minimum Wage. The UK has had minimum wage regulation in the past, most recently the system of Wages Councils and Wages Boards which existed between 1909 and 1993. Many other developed countries have also had a minimum wage system for decades. Hence minimum standards on pay are not unprecedented or unusual either here or abroad. But this is the first time that a National Minimum Wage, covering all business sectors and parts of the UK, has been introduced.
- 1.2 In setting out our terms of reference, the Government asked us to:
 - recommend the initial level at which the National Minimum Wage might be introduced;
 - make recommendations on lower rates or exemptions for those aged 16–25; and
 - consider and report on any matters referred to us by Ministers.

In making our recommendations, we were instructed to have regard to the following: the wider economic and social implications; the likely effect on the level of employment and inflation; the impact on the competitiveness of

business, particularly the small firms sector; and the potential impact on the costs to industry and the Exchequer. We were asked to report to the Prime Minister on these matters by the end of May 1998.

Coverage

- 1.3 The National Minimum Wage Bill, which is before Parliament, elaborated our terms of reference. The Bill defines those qualifying for the National Minimum Wage as workers in the UK who are over compulsory school age. Although some specific groups are excluded – the armed forces, share fishermen, volunteers and prisoners – the legislation defines a worker broadly: its intention is to cover all those who are not genuinely self-employed. Since the Bill is introducing a *National* Minimum Wage, people must be entitled to the same minimum regardless of the region, the industry, the size of undertaking or the occupation in which they work. But Clauses four and five of the Bill allow us to recommend other categories for different treatment.
- 1.4 The Bill makes clear that the National Minimum Wage will apply to agriculture as it does to other sectors. Agricultural workers are already covered by the Agricultural Wages Boards for England and Wales, Scotland, and Northern Ireland. We met members of the Agricultural Wages Board for England and Wales, and took careful account of the existing provisions of all three Boards. When the National Minimum Wage is introduced, the Agricultural Wages Boards will need to take it into account, but it will not dictate other conditions set by them.
- 1.5 The Bill does not allow people to be treated differently on the basis of age, except for those below the age of 26. We consider the issue of how young people should be treated under the National Minimum Wage in Chapter 5. Skills and qualifications are becoming increasingly important in developed economies and, in the same chapter, we also discuss the treatment of trainees of all ages.
- 1.6 A small minority who gave evidence to us suggested exempting or having a lower level of the National Minimum Wage for people with disabilities. But the vast majority, including the Government, saw no justification for this. We believe that there are compelling arguments for treating disabled workers in the same way as other workers.

To do so recognises the value of disabled workers to employers and supports a culture of social inclusion. Moreover, for those people with severe disabilities that limit their productivity, the Government funds the Supported Employment Programme which helps employers recruit and maintain these workers in jobs.

Key Issues

- 1.7 Many people from whom we received evidence suggested a number of potential benefits that a National Minimum Wage could bring to the UK. These included:
- complementing tax and benefits reform to reduce in-work poverty and promote work incentives as part of ‘making work pay’;
 - helping to reduce inequalities of income for the working population by removing the worst cases of exploitation, thereby ensuring greater decency and fairness in the workplace;
 - promoting equal opportunities between the sexes and between people of different ethnic backgrounds;
 - encouraging firms to compete on the basis of quality as well as price; and
 - helping to promote employee commitment, reduce staff turnover and encourage investment in training, thereby boosting productivity and aiding company competitiveness.
- 1.8 All the Commissioners agree on the importance of introducing a National Minimum Wage that reflects the interests of employers, workers and those seeking work. An effective wage floor should make a difference to the low paid while minimising burdens to business. That is our aim. We outline below the issues that we considered to be most important in forming our conclusions.

Inequality and Low Pay

- 1.9 Most workers in the UK have seen an increase in their real earnings over the past two decades. But increases have not been uniform. Average earnings have increased much more rapidly than the earnings of lower-paid workers, and the earnings of the skilled have increased relative to those of the unskilled. Certain groups of workers are much more

likely to be low paid than others: these include women (particularly those who work part time) as well as young, ethnic minority and disabled workers. Temporary workers and male part-time workers are also more likely to experience low pay. We met many workers who felt trapped on low pay because of lack of skills, mobility or opportunities. They feared that their only alternative was unemployment.

- 1.10 Higher levels of unionisation in the workforce and the existence of collective bargaining reduce the probability of low pay. Several of the lowest-paying business sectors – for example, the retail and wholesale trades, and hotels and restaurants – have very low union representation. These industries employ a significant number of part-time or seasonal employees, frequently women and young people, who for a number of reasons are less likely to become union members.
- 1.11 A system of in-work benefits exists to provide a basic level of income for the low paid. Many of these benefits are income-related, and are progressively withdrawn as individual or family income rises. The withdrawal of benefits can significantly offset any increase in earnings that a low-paid worker with a family might receive, which gives rise to the so-called poverty trap. We are keenly aware of the interdependencies between the tax and benefits system and the National Minimum Wage. We heard evidence from many unemployed people, particularly those with children, who ‘could not afford’ to take jobs at the pay levels advertised. We were told of one estate, for example, where 63 per cent of unemployed people had refused jobs because they claimed that the pay was so low that they were better off on benefits. The National Minimum Wage must complement the tax and benefits system and current government reforms to create a greater incentive to work by rewarding work more highly.
- 1.12 In addition, the National Minimum Wage must remove gross exploitation. We met a woman employed in a bar in Birmingham, who routinely worked a ‘four hour’ evening shift for £12 gross. But the four hours reflected only the time that she was serving. She was also required to stay for up to two hours after closing in order to clear the bar; this time was not paid at all. Another worker, quoted in evidence by the Yorkshire and Humberside Low Pay Unit,

said: 'I worked as a homeworker for 14 years. I got £1.75 per hour. I am now a cleaner at £2.75. So someone is making money along the line and it is not the worker.' These are not isolated examples. The National Minimum Wage must make a difference to such workers.

Business Competitiveness

- 1.13 A company's sustained competitiveness depends on its productivity and the quality of its products or services. Competitiveness is often achieved by, for example, innovation, good management, well-targeted capital investment and the development of workers' skills. In labour-intensive business sectors, however, some firms compete simply on the basis of low pay. This can lead to a damaging downward spiral of low wages and poor standards, which is detrimental to both businesses and workers. As the British Chambers of Commerce stated in evidence, 'businesses recognise that a low wage policy leads to a vicious circle of low morale, low performance and low productivity'.
- 1.14 Because in-work benefits exist to supplement low earnings, it has been possible for some employers to depress wages to unacceptable levels and thereby transfer unreasonable costs onto the benefits system. As a result, the taxpayer ends up subsidising wage exploitation and unfair competition. We heard of employers who told their workers to go to the local Citizens Advice Bureau to obtain guidance on the number of hours of work that they could take while retaining benefits. In their evidence, UNISON (NI) and the Northern Ireland Anti-Poverty Network told us that 'a decent minimum wage would mean that employers in North Belfast who pay fair wages are no longer undercut or forced to subsidise the low wages paid by unscrupulous employers using state benefits such as Family Credit to supplement the income of their staff'.
- 1.15 The National Minimum Wage should protect reputable firms from being undercut by competitors solely on the basis of depressed wages. It should also protect the taxpayer from subsidising wage exploitation. It has the potential to encourage competitiveness based on a better skilled workforce and better quality products and services. These are key factors in a modern, dynamic economy.

Variation by Sector and Firm Size

- 1.16 Since low pay is more prevalent in companies with fewer employees, they will generally be most affected by the introduction of the National Minimum Wage. They are more vulnerable to changes in economic circumstances and are characterised by particularly high closure rates. We therefore examined their circumstances carefully. Many are facing competitive pressures from larger companies. Small retail stores provide an obvious example. The Retail Trade Alliance pointed out in its evidence to us that convenience store retailers operate on much narrower net profit margins than larger stores, and that for many small businesses the wage bill represents a substantial proportion of overhead costs. 'As a result, any increase in labour costs has a disproportionate punitive effect on small retailers.'
- 1.17 We are also aware that some sectors could experience indirect consequences of the National Minimum Wage. The costs of out-sourced work or suppliers could be affected. Hence we had to make judgments about the indirect effects of the National Minimum Wage, to consider the current trends in industries, and to assess the pressures that already exist in the market place. A National Minimum Wage introduced at too high a level would put firms and jobs at an unacceptable risk.

Diversity in Pay Systems and Employment Practices

- 1.18 Pay systems are diverse. Pay can be variously linked to performance, profit, business circumstances and skills. Differential payments for skills and experience vary within sectors and can even do so within the same firm. Employment practices also differ widely. Some workers have no specified hours, or work at home. Others take casual or seasonal employment, for example, in the hospitality or horticulture sectors.
- 1.19 Some practices have developed for the benefit of both employers and workers. They have allowed workers to gain employment and employers to realise the potential of workers who, in previous times, might have remained outside the labour market. Diversity in pay systems and employment patterns required us to take a pragmatic approach to the definition of the National Minimum Wage and to methods of ensuring compliance. The National Minimum Wage must be introduced in such a way that it

does not create any unnecessary bureaucratic burdens for business. We want to protect those who might be exploited, but we do not want to force business into a straitjacket. We have sought to provide an effective floor for wages, not a rigid regime of pay and employment practices.

Conclusion

1.20 Our consideration of economic and social issues confirmed our belief in the value of a National Minimum Wage. They also led us to conclude that the National Minimum Wage should:

- **Support a competitive economy.** Economic growth and job creation require companies to compete on a range of factors, not merely the lowest price of labour. Greater development of workers' skills will be one increasingly important factor.
- **Be set at a prudent level.** The impact of introducing a National Minimum Wage is impossible to predict precisely. Certain groups of workers, business sectors and firms are more vulnerable than others. A prudent approach is needed when the National Minimum Wage is introduced to minimise the risk to employment.
- **Be simple and straightforward.** The National Minimum Wage must accommodate diversity in pay structures and patterns of employment. It needs to be simple so that it can be easily understood, implemented and enforced.
- **Make a difference.** Wage inequality in the UK has grown substantially over the last two decades. The National Minimum Wage must protect the most vulnerable from exploitation and be a critical factor in a package of measures to address social exclusion and make work pay.

1.21 Achieving these aims requires detailed understanding of the circumstances of low-paid workers and of businesses that might be affected. The next chapter describes the extensive research, analysis and consultation we undertook to understand these circumstances.

2 What We Did

Before making our recommendations for the National Minimum Wage, we undertook a great deal of research, analysis and consultation. We began by reading the academic literature on the subject from the UK and abroad. We invited written submissions and took oral evidence. We also made extensive visits across the UK, which enabled us to canvass a wider range of opinion by providing first-hand contact with businesses in low-paying sectors and areas and with unemployed and low-paid workers and their representatives. The setting of the National Minimum Wage is ultimately a judgment and we describe here the work that enabled us to form that judgment.

- 2.1 Employers, workers, voluntary organisations, pressure groups, academics, the unemployed and many others hold a wide variety of views about the setting of the National Minimum Wage. In addition, there is a wealth of relevant data and literature from the UK and abroad. We considered all of these sources of information and opinion.
- 2.2 We started our work in July 1997 by reading published research and analysis. This helped us to focus on areas of importance. We quickly discovered the lack of any theory which would predict accurately the impact of the National Minimum Wage and the ways that people would react to it. We therefore embarked on an extensive consultation process. We invited and analysed written and oral evidence from major organisations and interested parties. But we wanted to go beyond such traditional consultation. Since we needed to consider the potential impact of the National Minimum Wage across all business sectors and parts of the UK, we were determined to have direct contact with a wide range of employers, workers and the unemployed to understand the realities of their circumstances. We were particularly keen to reach small firms, rural businesses, businesses operating on the fringes of the formal economy and, above all, low-paid workers and the unemployed. We travelled throughout Britain to meet a wide range of people in order to produce properly informed recommendations for the introduction of the National Minimum Wage. A full list of those organisations and individuals from whom we received evidence, or whom we met, is provided at Appendix 1.

Research Process

- 2.3 Our work was greatly helped by the large quantity of high quality research on the labour market that was available from academic and other sources. This research examined the substantial international experience of minimum wage legislation as well as the consequences of phasing out the Wages Councils in the UK. The assimilation and analysis of this material was a major task. Different Commissioners brought to the task their knowledge of specific business sectors and of economic analysis. Secretariat members, seconded from inside and outside the civil service, had backgrounds in economics, statistics, pay and remuneration, business development, employment practice, social security and industrial relations.
- 2.4 We studied data on low pay from a number of official sources, conscious of the substantial discrepancies in estimates of the incidence of low pay from the two primary sources: the New Earnings Survey (NES) and the Labour Force Survey (LFS). We contributed to work undertaken by the Office for National Statistics (ONS) to reconcile these differences, the results of which influenced our final recommendations. But the short time-span in which this report was prepared and the technical difficulty involved meant that neither ONS nor the Commission was able to produce a sufficiently rigorous assessment of the data to generate reconciled analyses of data disaggregated by, for example, industry. Hence most of our analysis uses raw LFS and NES data, but we employ these knowing that in general the former overstates the extent of low pay and the latter significantly understates it. Further details about official data sources and our work to reconcile them is provided at Appendix 2.
- 2.5 We commissioned research from Incomes Data Services into pay structures and pay systems, and from Cambridge Econometrics into the demand consequences of increased wages. We gathered information about the operation of minimum wages abroad. In addition, we consulted government officials about education and training initiatives and also about the tax, National Insurance and benefits system.
- 2.6 We engaged consultants to develop a more detailed understanding of relevant business sectors. Their efforts supplemented the extensive sectoral knowledge that

individual Commissioners brought to our work, and the understanding that we gained from those working in the industries themselves and from the relevant government departments.

- 2.7 Finally, an economics group, involving Commissioners and supporting economists, met frequently to scrutinise academic papers, economic analyses, and survey data to improve our understanding of the pay structures of low-paid workers. It also assisted our efforts to reconcile the figures presented by the different surveys of earnings in the UK.

Consultation

- 2.8 From the outset we engaged in an open consultation process, seeking opinion from all. In order to encourage a wide cross-section of responses, we sought and obtained publicity for our work in the local and national press and on radio and television. We also encouraged written contributions through our Low Pay Commission site on the Internet.
- 2.9 We invited evidence from nearly six hundred employer organisations, trade associations, unions, voluntary organisations, pressure groups and academics. We received written evidence from nearly five hundred organisations together with a large number of supporting reports, surveys and papers. We took formal oral evidence from forty seven representative groups of employers and workers.
- 2.10 Finally, and of great significance, we visited sixty one cities, towns and villages across the UK. These provided the opportunity to meet representative organisations and interested individuals at local level. Our meetings, over two hundred in all, were informal to encourage frank and open discussion. They allowed us to meet people from a variety of backgrounds. We greatly appreciate the participation of all involved.
- 2.11 We gave particular consideration to sectors of business or society for which the National Minimum Wage might have the greatest impact. We invited evidence from traditionally low-paying sectors, from small firms, from industries in which young people are particularly prominent, from industries facing international competition, and from businesses dependent on public funding. We also targeted

charities and organisations representing women, young people, homeworkers, ethnic minorities, the disabled and the unemployed. Throughout the process we were impressed by the level of awareness about, and interest in, the National Minimum Wage.

Written Evidence

- 2.12 In inviting written evidence, we asked people to focus on the practical implications of a National Minimum Wage. We asked for estimates of the impact that the National Minimum Wage set at different levels might have on, for example, employment, training, and working patterns. We also inquired about the strategic decisions that organisations might take in response to the National Minimum Wage.
- 2.13 We received a high response rate to our invitation for evidence. All significant sectors and interests provided substantial submissions. Many groups had conducted surveys among their members in order to provide us with an indication of diversity of opinion. Other groups worked together in order to highlight shared views and concerns. Individuals wrote to us with vivid examples of the challenges faced by their family businesses or of their experiences in the labour market. The Government also supplied evidence drawn from across departments.
- 2.14 We fully considered all pieces of evidence, from single page letters to detailed studies. Our analysis of views highlighted the complexity of issues involved and illustrated the ways in which the introduction of the National Minimum Wage could cause different reactions in the labour market. Although contributors were free to provide evidence on a confidential basis, the overwhelming majority were willing to have their evidence made public. We shall make this evidence available in the near future.

Oral Evidence

- 2.15 Formal hearings allowed us to test thoughts and opinions with representative groups. The hearings were organised to achieve a balance between employer and employee representatives, between large and small company interests, and between the business sectors that are likely to be most affected by the National Minimum Wage. A similar diversity of organisations was invited to represent the interests of the voluntary sector and particular groups in society.

- 2.16 Given our tight timetable, we were pleased that all invited organisations agreed to give evidence, and they are listed in Table 2.1. They took considerable care in preparing for the sessions, and this showed in the quality of information we were given and the discussions that resulted. We found that the sessions focused the debate and ensured that we did not lose sight of key issues within the detail of our work. Although we took these hearings on a confidential basis, many participants chose to make their positions public. This was helpful in generating wider awareness and debate.

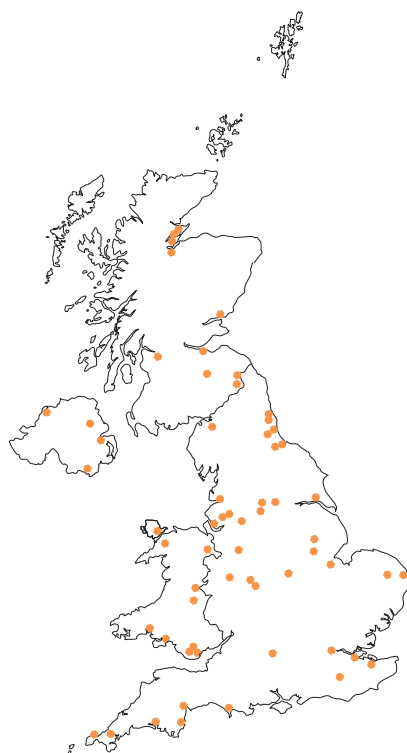
Table 2.1

Participants in Formal Commission Hearings
Agricultural Wages Board for England and Wales
Amalgamated Engineering and Electrical Union
Belfast Unemployed Resource Centre
Brewers and Licensed Retailers Association
British Apparel and Textile Confederation
British Chambers of Commerce
British Hospitality Association
British Retail Consortium
British Youth Council
Business in Sport and Leisure Ltd.
Business Services Association
Cleaning and Support Services Association
Commission for Racial Equality
Confederation of British Industry
Confederation of British Industry Northern Ireland
Convention of Scottish Local Authorities
Equal Opportunities Commission
Federation of Small Businesses
Federation of Small Businesses (Scotland)
General Assembly Committee on Church and Nation (Church of Scotland)
GMB
Hairdressing Employers Association
Independent Care Organisations' Network
Independent Healthcare Association
Joint Care Council
Local Government Association
Local Government Management Board
Low Pay Unit Research Trust
National Advisory Council on Employment of People with Disabilities

National Association of Citizens Advice Bureaux
National Council for One Parent Families
National Council for Voluntary Organisations
National Hairdressers' Federation
National Youth Agency
Northern Ireland Anti-Poverty Network
Northern Ireland Association of Citizens Advice Bureaux
Northern Ireland Committee of the Irish Congress of Trade Unions
Northern Ireland Council for Voluntary Action
Retail Trade Alliance
Scottish Council for Voluntary Organisations
Scottish Trades Union Congress
Trades Union Congress
Transport and General Workers' Union
Unemployment Unit and Youthaid
Union of Shop, Distributive and Allied Workers
UNISON
UNISON (Northern Ireland)

Figure 2.1

Locations Visited by the Commission



UK Visits

- 2.17 We made a series of visits across the UK throughout the Autumn and Winter of 1997/98. We divided into groups of two or three, so that we could have informal discussions. This also enabled us to maximise the number of locations that we could visit. We sought and received considerable interest from local media on all the visits, which helped generate additional evidence and, we believe, greater awareness of the introduction of the National Minimum Wage.
- 2.18 We went to North, South, West and Mid-Wales. We visited the Borders and Highlands as well as cities in central Scotland. We travelled to four centres in Northern Ireland. We held meetings in all the English regions. Sometimes we visited a site which might be affected by the National Minimum Wage: for example, a hotel in Gwynedd, a security firm in Plymouth, a shopping centre in Newry or a fish farm in Ross and Cromarty. Sometimes we met a group with a particular interest, for example, textile manufacturers, community workers, or young people. The places that we visited are indicated in Figure 2.1.

- 2.19 For each visit we deliberately drew on the knowledge and contacts of local people. We asked local employer, worker and community groups to take the initiative in suggesting whom we should meet. Thus Low Pay Units, Citizens Advice Bureaux, Jobcentres and unions identified workers and unemployed people. Youth groups and community centres identified young workers. Chambers of Commerce, small business organisations, trade associations and regional branches of the Confederation of British Industry put us in contact with companies, including many small firms. We also received assistance from Training and Enterprise Councils, local authorities, regional government offices and government departments in Northern Ireland, Scotland and Wales.
- 2.20 During the visits we discussed the effects of the National Minimum Wage with employers, both those who thought it would present problems and those in similar businesses who thought it would not. The differences were illuminating. We also talked to workers (and their representatives) and to the unemployed, whose job prospects might be affected by the National Minimum Wage.
- 2.21 These discussions gave us insight into practical concerns, such as how to enforce compliance. They broadened the debate by encouraging discussion of a range of issues, such as the components and definition of the National Minimum Wage, as well as its level. They also allowed us to assess the longer-term ways in which different industries might respond to the National Minimum Wage.
- 2.22 Unsurprisingly, we met no firms which admitted to paying very low wages or to operating within the informal economy. But other competing businesses, Citizens Advice Bureaux, Low Pay Units and workers themselves provided invaluable information about poorer employment practices. They also provided a wealth of practical knowledge about the workings of the labour market and the experiences faced by the low paid or unemployed in dealing with the benefits system and irregular employment.
- 2.23 We are grateful to employers, workers and their representatives for sharing sensitive information with us. We believe that the visits helped to prepare the companies that we met for the introduction of the National Minimum Wage.

Emerging Themes

2.24 The following themes emerged from our consultation process:

- Both employers and workers recognise that a National Minimum Wage could bring business benefits. It could halt competition based on a damaging downward spiral of wages made possible by state subsidies to low-paid workers. It could also reduce staff turnover and enhance productivity.
- Employers and workers overwhelmingly advocate a simple structure for the National Minimum Wage that can be easily understood, managed and enforced.
- Some businesses are facing great difficulties and are genuinely concerned about a National Minimum Wage which is set too high.
- Although the incidence of low pay varies within and between regions, it is prevalent throughout the UK, and therefore a National Minimum Wage has relevance for all.
- Pay varies considerably within and between business sectors and this will shape the impact of the National Minimum Wage.
- Many low-paid people feel undervalued, exploited and powerless to break out of the poverty trap.
- A lack of affordable childcare causes significant barriers to work for many parents.
- Further reform of the tax and benefits system is required so that increased earnings from a National Minimum Wage are not offset by significant cuts in benefits.
- Employers and workers generally support a training rate for the National Minimum Wage, but there is greater uncertainty about age-related rates.
- The informal economy poses a threat to reputable businesses and their staff: workers might not feel able to enforce their rights to the National Minimum Wage, and disreputable employers might seek to evade the legislation.

Conclusion

- 2.25 Our approach to our task was based on both the analysis of literature and data and wide-ranging consultation that directly informed us about the labour market in practice. Both parts were essential. The availability of a large volume of relevant research enabled us to make quick progress and to focus on the areas of greatest relevance. The consultation process provided us with formal written and oral evidence from all significant representatives of employers, workers, and the unemployed who might be affected by the National Minimum Wage.
- 2.26 The formal evidence was supplemented by discussions in meetings held across the countries and regions of the UK. These provided an opportunity to talk with small employers who are less likely to attend formal oral hearings, and with low-paid workers and the unemployed who similarly could have remained unheard. Their stories illuminated and illustrated the formal evidence and increased our belief in the benefits of introducing the National Minimum Wage.
- 2.27 Ultimately, the introduction of a National Minimum Wage in the UK is not a scientific exercise; rather, it is a journey into uncharted waters. Its impact cannot be predicted with certainty, since businesses and pay practices vary greatly. The impact will be affected by the ways in which people react. We made every effort to identify and listen to the sectors of business and to the people for whom the National Minimum Wage might have the greatest impact. The next chapter, which analyses the pattern of low pay, identifies these sectors and the groups of people most affected.

3 Pattern of Low Pay

Widening earnings inequality has led to a substantial degree of in-work poverty. Low pay is more prevalent within certain groups of workers: women, young people, people with disabilities and ethnic minorities. Its incidence is influenced by working patterns, because part-time and some casual workers are disproportionately low paid. Low pay is also more concentrated in certain regions and business sectors and in smaller firms. The pattern of low pay is not straightforward: the extent of low pay, and to whom it applies, is affected by a complex interaction of the above factors. In addition, the situation of low-paid workers is frequently complicated by the intricately interrelated systems of tax, National Insurance and in-work benefits.

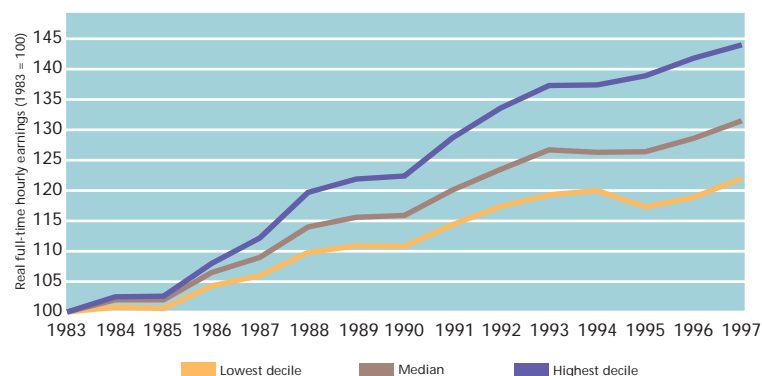
- 3.1 We learned of many people – men and women, full- and part-time workers – facing the most difficult circumstances caused or compounded by very poor rates of pay. Their lives, particularly those of workers with families, are difficult and complicated. They have to juggle the demands of work, benefits, domestic commitments and costs to establish what for many people would seem a mere subsistence living. The result is that many people work very hard and yet live on low incomes, and many see little opportunity to improve their lot. Indeed, many workers are trapped in a cycle between low-paid work and unemployment, or are unable to move out of low-paid employment.
- 3.2 There is no standard definition of low pay. Commonly it is considered as hourly rates falling within the lowest 10 per cent of earnings (the lowest decile). But the level of the lowest decile is not straightforward: it can range from little more than £3.00 per hour to more than £4.00 per hour (at 1997 levels) according to the source of the data and how they are interpreted. Similarly, it can be judged relative to the mid-point of earnings (the median), but variations also occur in the definition of the median. The prevalence of low pay can be demonstrated through both these measures by considering the widening distribution of earnings in the UK over recent years. For at least the last twenty years, workers on median earnings and those in the highest decile have seen a much more rapid increase in earnings than the lowest-paid workers (see Appendix 3). Figure 3.1 demonstrates this growth over the period from 1983 to 1997.

‘Because pay rates are so low, many workers have to take more than one job just to make ends meet. One woman... had three low paid jobs – one as a cleaner in a public house for £3.09 an hour, one as a cleaner for the local authority for £3.70 and one as a care assistant for £2.85.’

Greater Manchester Low Pay Unit
Evidence

Figure 3.1

Earnings Growth 1983–1997



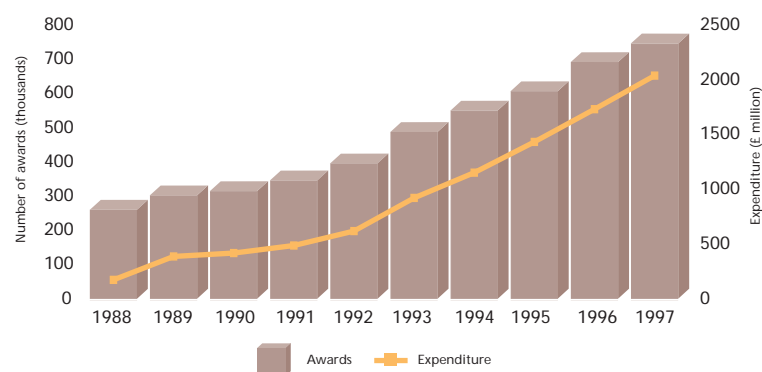
Source: NES

Note: Data prior to 1983 are not on a consistent basis with those for 1983 and after.

3.3 The widening distribution of earnings has led to a substantial degree of in-work poverty, particularly among families with young children, and a consequential increase in dependence on in-work social security benefits. As Figure 3.2 shows, expenditure on Family Credit (and its predecessor, Family Income Supplement) rose, in cash terms, from nearly £200 million in 1987/88, to just over £2 billion in 1996/97. About three-quarters of a million families received Family Credit in May 1997. In addition, Housing Benefit and Council Tax Benefit are each payable to almost a quarter of a million working families and single people. Although exact figures are not available, we know that many families receive all of these benefits. (A review of the tax and benefits system is provided in Appendix 4.)

Figure 3.2

Family Credit/Family Income Supplement Awards and Expenditure 1988–1997



Source: Department of Social Security

- 3.4 The causes of low pay and in-work poverty are complex and are not dealt with here. This chapter is concerned with the incidence of low pay. It generally uses a gross earnings figure of £3.50 per hour to indicate low pay. This figure, based on 1997 pay rates, was used frequently in the evidence supplied to us to illustrate the extent of low pay and consequently provides a useful benchmark. The data in this chapter, however, are used primarily to show the differences between various groups rather than to provide an accurate assessment of the actual amount of low pay.
- 3.5 The data result from our analysis of the Autumn 1997 Labour Force Survey (LFS) and the April 1997 New Earnings Survey (NES) and they relate to workers aged 18 and over within the UK. The LFS, as we discuss elsewhere in this report, tends to overstate the incidence of low pay. Where the NES is used, the data significantly understate the amount of low pay. Figure 3.3 illustrates the comparative estimates of low pay using data from the LFS and the NES. A more detailed discussion of the data is contained in Appendix 2.
- 3.6 Using the figure of £3.50 per hour, Tables 3.1 and 3.2 demonstrate that the incidence of low pay varies greatly according to the personal and employment characteristics of workers. And the following sections of the chapter consider in some detail those who are most likely to be low paid and where they work.

Figure 3.3

LFS and NES Estimates of Low Pay Incidence

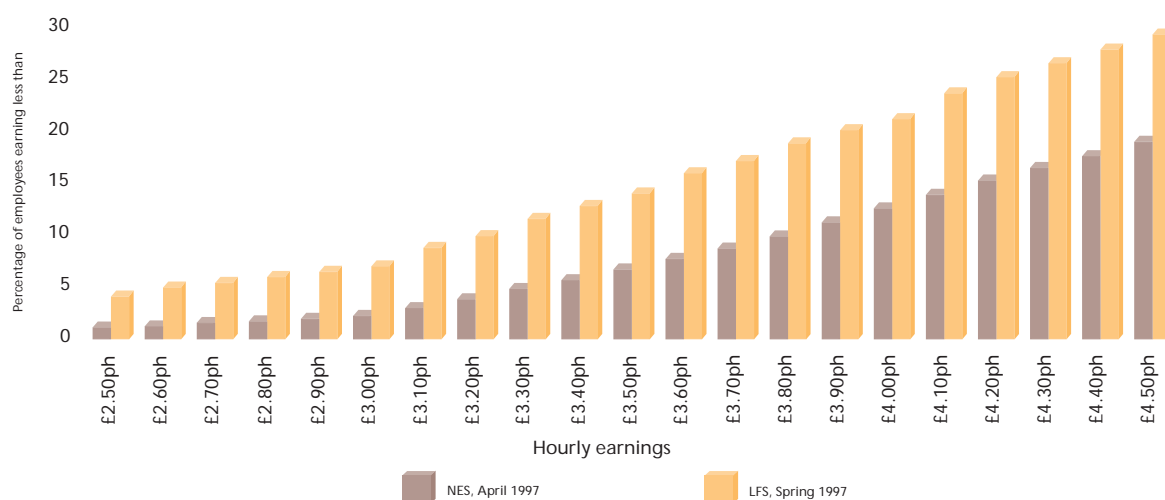


Table 3.1

Personal Characteristics Which Affect the Likelihood of Being Low Paid		
Personal characteristics	Percentage of people with these characteristics who earn less than £3.50 per hour	Percentage of all people earning less than £3.50 who have these characteristics
All employees	11	100
Female employee	16	66
Male employee	7	34
Manual employee	18	62
Non-manual employee	7	38
Employee aged 18-20	41	18
Employee aged 21+	10	82
Non-white employee	13	5
White employee	11	95
Long-term disabled	16	9
Not long-term disabled	11	91
Part-time worker	25	52
Full-time worker	7	48
Lone parent in work	19	7
Not lone parent	11	93
Seasonal worker	39	1
Casual worker	36	4
Permanent employee	11	89
Agency staff	18	2
Fixed-term contract	10	3
Other	19	1
Work in own home	34	2
Work in same grounds or buildings as home	34	2
Separate workplace	11	93
Different places with home as base	9	2

Source: LFS, Autumn 1997

Note: These data may tend to overstate the extent of low pay.

Table 3.2

Employment Characteristics Which Affect the Likelihood of Being Low Paid		
Employment characteristics	Percentage of people with these characteristics who earn less than £3.50 per hour	Percentage of all people earning less than £3.50 who have these characteristics
All employees	11	100
Private sector	14	84
Voluntary sector	14	3
Public sector	5	12
Employed in businesses:		
– without trade union recognition	17	83
– with trade union recognition	4	17
Hospitality	40	15
Retail and wholesale	19	26
Other community, social and personal	18	7
Health and social work	13	13
Manufacturing	7	12
Under 25 employees in the workplace	20	58
25 or more employees in the workplace	7	42

Source: LFS, Autumn 1997

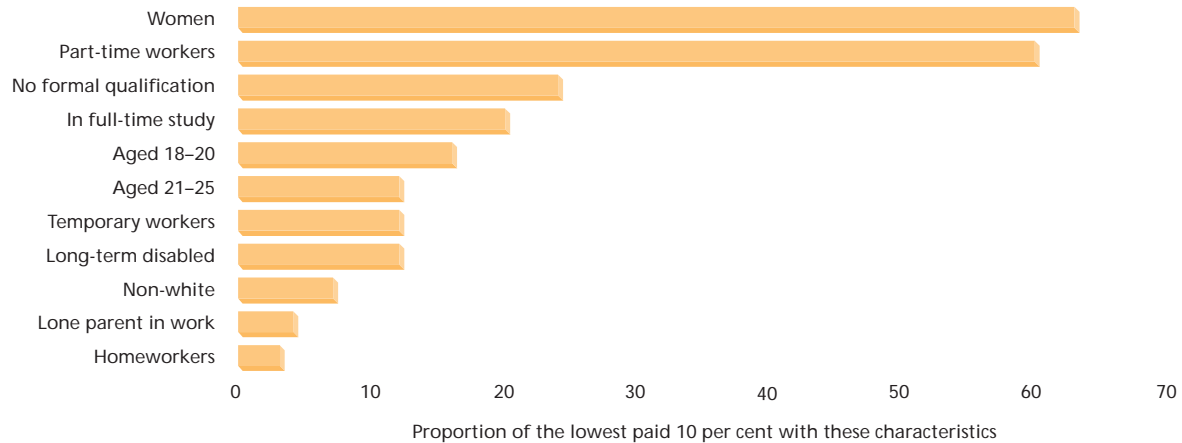
Notes: These data may tend to overstate the extent of low pay. Tables 3.1 and 3.2 read, for example, 14 per cent of employees in the private sector earn less than £3.50 per hour (column 2), whereas 84 per cent of employees earning less than £3.50 per hour are employed in the private sector (column 3).

Who Are the Low Paid?

- 3.7 As can be seen from Tables 3.1 and 3.2, some groups of workers are more likely to be low paid than others. They include the following: women, young people, ethnic minorities, people with disabilities, part-time workers, lone parents, temporary and seasonal workers and homeworkers. Figure 3.4, based on Spring 1997 LFS data, demonstrates the extent to which these groups appear in the lowest-paid 10 per cent of workers.

Figure 3.4

Characteristics of the Lowest Paid



Source: Annex B (iv), Government Evidence

‘Women still earn 20% less than men even after 25 years of equal pay legislation and this gap is even larger in lower paid and part-time work.’

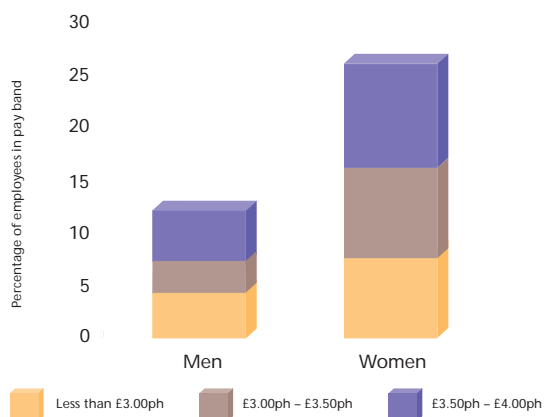
Fawcett Society (1997)

Women

3.8 Women have generally experienced higher earnings growth than men since the introduction of the Equal Pay Act, but they remain disproportionately lower paid. Figure 3.5 demonstrates that female workers are more significantly represented than men in the lower earnings bands, although the difference is less pronounced at the lowest levels.

Figure 3.5

Incidence of Low Pay Among Men and Women



Source: LFS, Autumn 1997

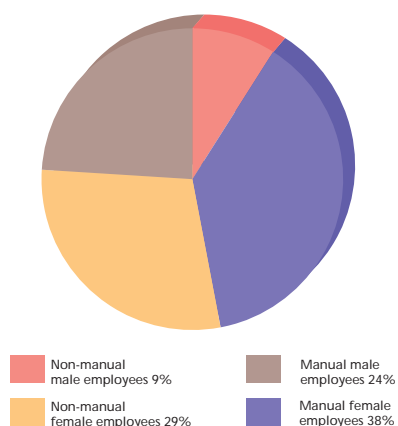
3.9 Figure 3.6 shows that workers in manual occupations are disproportionately represented among the low paid.

Among male employees there is a marked difference between the numbers of low-paid manual and non-manual employees, but the distinction between the two groups is much less marked among female employees.

3.10 Many sectors in which low pay prevails – such as cleaning, hospitality and social care – are those where female workers have traditionally been in the majority. In the social care sector, for example, evidence from the Local Government Management Board Survey (LGMB, 1997) shows that 90 per cent of staff in residential and nursing homes are women. But, as we discuss later in this chapter, certain types of working patterns in which female workers predominate – such as part-time work and homeworking – can significantly influence the level of pay. Many jobs with these working patterns exist in the lowest-paying sectors, which creates further downward pressure on women’s pay.

Figure 3.6

Make-up of Low-paid Employment (<£3.50ph) by Sex and Occupation



Source: LFS, Autumn 1997

Young People

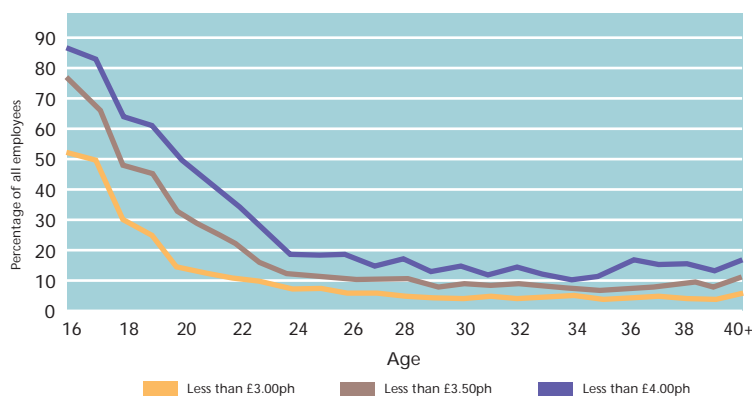
3.11 Young people are far more likely than older workers to be in low-paid jobs. And, as the British Youth Council pointed out in its evidence, ‘their pay has fallen dramatically as a proportion of adults’ pay since 1979.... For 18–20 year olds, wages fell during the same period (1979–1996) from 62.5 per cent to 46.5 per cent for men and from 77.3 per cent to 57.1 per cent for women.’ Figure 3.7 demonstrates, however, that the incidence of low pay decreases rapidly during the late teens.

‘An 18 year old contacted the Unit about rates of pay for storekeepers/warehouse personnel. He was earning £64 for a 37½ hour week – just £1.70 an hour.’

Low Pay Unit Research Trust Evidence

Figure 3.7

Incidence of Low Pay by Age



Source: LFS, Autumn 1997

‘Research by the TUC [in 1995] found that as well as being more likely to be in low paying jobs, black workers are likely to be paid less than white workers doing similar work.... The TUC also found that half of all full time black workers employed in sales occupations earned below £3.75 an hour, with the bottom ten per cent earning below £2.25 an hour.’

UNISON Evidence

3.12 There are certain characteristics of young workers which make them different from older workers. Many young workers are in full- or part-time education or training. The rates of pay of young people tend to reflect that they are entering the world of work for the first time. Unlike many low-paid workers, most young people tend to move out of low pay as they move through their late teens and early twenties.

Ethnic Minorities

3.13 Reliable data on ethnic minorities are difficult to obtain, but those available indicate that they are more likely to be low paid than their white counterparts. The Commission for Racial Equality highlighted in its evidence that in manufacturing, for example, almost one-third of ethnic minority employees earn less than £4.00 per hour compared with 15 per cent of white employees. But there is significant diversity between groups of non-white workers. Table 3.3 shows that the full-time earnings of male workers of Caribbean origin significantly exceed those of male workers of Indian, Pakistani and Bangladeshi origin. The table also indicates that ethnic minority women earn more than white women. It has been suggested that this finding is flawed, however, because the data omit a good deal of the homeworking which occurs, especially in the clothing and hosiery industries, among ethnic minority women.

Table 3.3

Mean Weekly Earnings: Full-time Workers by Ethnic Group		
	Men	Women
	(£ per week)	(£ per week)
White	336	244
All ethnic minorities	296	259
Chinese	336*	287
African Asian	335	254
Caribbean	306	267
Indian	287	252
Pakistani	227	181*
Bangladeshi	191	181*

Source: Policy Studies Institute 1997 (cited in the Low Pay Unit Research Trust Evidence)

Note: Figures with asterisks are less reliable data due to the small size of the sample.

3.14 The Low Pay Unit Research Trust drew attention in its evidence to the Policy Studies Institute’s 1997 survey of ethnic minorities. After allowing for factors such as differences in age and qualifications and in local unemployment rates, the Institute found that differences in earnings were related

more to occupational status and level of qualification than to ethnic origin. Ethnic minority workers are more likely to work in low-paying sectors such as hospitality and retailing; half of all Bangladeshi men, for example, work in catering. Even within these sectors, however, ethnic minority workers tend to be lower paid. The Commission for Racial Equality pointed out in its evidence that Pakistani and Bangladeshi workers in hotels and restaurants are half as likely again as white workers to be earning less than £4.00 per hour.

People with Disabilities

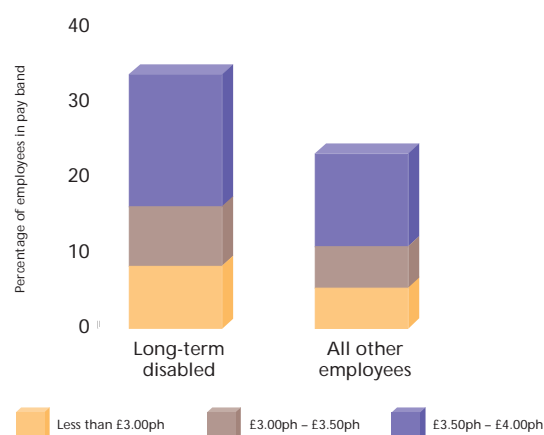
3.15 Most people with disabilities work alongside non-disabled workers and are paid on the same basis. For some people with more limited capacity to work, the Government provides a Supported Employment Programme. Nevertheless, there is significant evidence that disabled people continue to face discrimination in employment despite the introduction of the Disability Discrimination Act (DDA) in 1996. Disabled people are twice as likely as the non-disabled to be unemployed and half as likely again to be long-term unemployed. Disabled people are more likely to be low paid than people who are not disabled. The National Advisory Council for the Employment of People with Disabilities (NACEPD) highlighted in its evidence that ‘nearly a quarter of a million disabled people are currently paid less than £3.00 per hour – 13 per cent of disabled workers’. This compares with 8 per cent of non-disabled workers. Figure 3.8 demonstrates the higher incidence of low pay among workers with a long-term disability.

‘Blind and partially sighted people face bleak prospects in employment. In addition to the barriers to securing and retaining paid work there is extensive discrimination in work. Significantly, blind and partially sighted people are concentrated in lower paying, semi-skilled, unskilled and routine manual occupations, and fewer are employed in professional and skilled occupations. Many blind and partially sighted people are therefore caught in poverty even when in work.’

Royal National Institute for the Blind Evidence

Figure 3.8

Incidence of Low Pay Among Long-term Disabled Employees



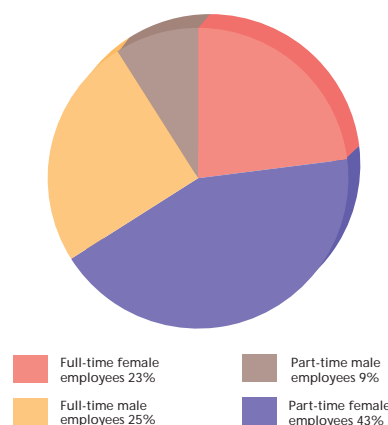
Source: LFS, Autumn 1997

‘Analysis of low paid employees shows just how much part-time workers shoulder the burden of low pay. 22% of part-time workers earn less than £3.00 an hour compared with just 6% of full-timers.... Analysis of the New Earnings Survey since 1979 shows that the poorest 10% of part-timers have seen their average earnings fall in real terms by 4%. At the same time earnings for those in the top 10% grew by 64%.’

Trades Union Congress (1995a)

Figure 3.9

Make-up of Low-paid Employment (<£3.50ph) by Sex and Employment Status



Part-time Workers

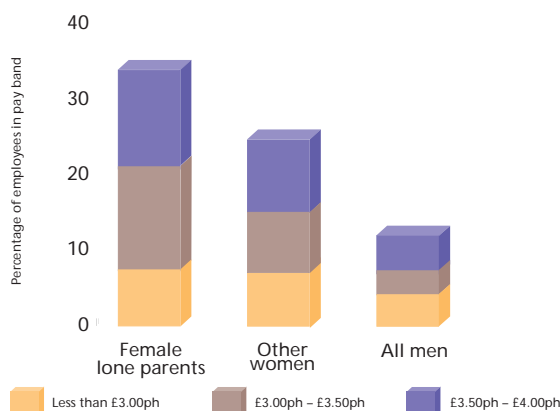
- 3.16 Part-time work can have significant advantages for both the employer and the employee. Frequently, it enables people who have children to take work which avoids their incurring childcare and other costs. It also enables employers to tap into a wider section of the workforce. Hence, until quite recently, the number of part-time jobs had been increasing faster than the number of full-time jobs for several decades.
- 3.17 Part-time workers make up just over half of low-paid workers. Figure 3.9 shows the extent to which female part-time workers predominate among the low paid. Although men, who have traditionally been in full-time employment, are increasingly in part-time work, they account for a relatively small minority of part-time workers. Moreover, as the Equal Opportunities Commission pointed out in its evidence, the characteristics of male and female part-time workers are different: ‘male part-timers tend either to be students or to be nearing or past state retirement age, whereas female part-timers are more evenly distributed between age groups’.
- 3.18 A number of factors contribute to the link between part-time work and low pay. In particular a connection exists between part-time work and certain occupations. Harkness (1998) has demonstrated that part-time work tends to be concentrated in low-skilled and therefore low-paid occupations. But she also examined the level of educational qualifications among female workers and concluded that women who work part-time tend to be less well-qualified than those who work full-time. In addition, pay levels in part-time work are sometimes influenced by National Insurance liability. Where earnings are near to the National Insurance Lower Earnings Limit (currently £64 per week, but due to rise to £81 per week in April 1999), there is an incentive for employers, and to some extent workers, to restrict earnings to remain below that limit.

Lone Parents

3.19 Most lone parents, the vast majority of whom are women, are constrained by domestic responsibilities as to the hours they can work. They frequently seek part-time work that fits in with school hours, thus avoiding the need for, and significant expense of, paid childcare. Not surprisingly, therefore, as Figure 3.10 shows, they tend to be more affected by low pay than female workers and workers in general.

Figure 3.10

Incidence of Low Pay Among Female Lone Parents



Source: LFS, Autumn 1997

Note: Data for male lone parents not available.

‘Essentially, a lone parent wanting to work has to find a stable, secure job that pays enough to cover childcare and other work expenses, with hours she can fit around her family’s needs. Like many mothers in couples, lone parents often prefer to work part-time. However, part-time work does not pay enough to keep a family, hence in-work benefits, primarily Family Credit, are needed to top up earnings.’

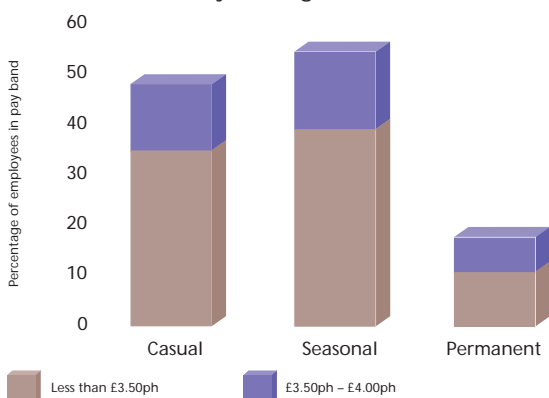
National Council for One Parent Families Evidence

Casual and Seasonal Workers

3.20 Temporary work covers a variety of types of employment and many of these are not low paid. Around half of temporary workers, for example, are on fixed-term contracts where average earnings are similar to those for permanent jobs. But, as Figure 3.11 shows, low pay is particularly prevalent in other forms of temporary work, such as casual and seasonal work.

Figure 3.11

Incidence of Low Pay Among Casual and Seasonal Employees



Source: LFS, Autumn 1997

‘I own a hotel in Llandudno.... My business is very seasonal, and during the summer months I employ a lot of students and part-time workers. I usually pay these people about £2.60 an hour, and my highest paid workers get £4.00 an hour.’

Federation of Small Businesses, Wales Evidence

3.21 The nature of seasonal and similar casual work is such that workers normally have little bargaining power and few formal employment conditions. Even in agriculture, however, where there is trade union representation on the Agricultural Wages Boards, the minimum wage for casual workers is substantially below that for regular workers – £3.21 compared with £4.26 under the latest (1998) agreement for England and Wales – although, for many casual workers, earnings are based on piecework rates where actual pay frequently exceeds these minima. (Further information on Wages Councils and Wages Boards is provided in Appendix 5.)

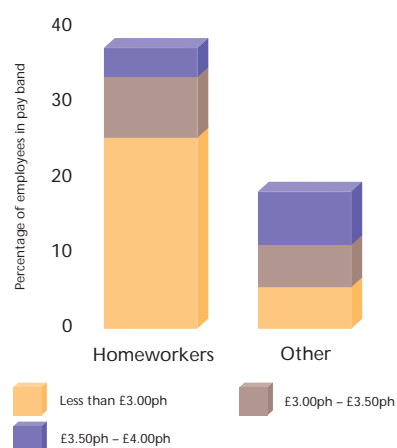
Homeworkers

Joan has to work from home because she has caring responsibilities. So she makes umbrella frames. She is paid 2.9–7.9 pence per umbrella frame (depending on the size). She is very experienced, makes 10–25 frames per hour and therefore earns 37-75 pence per hour. The equivalent factory rate for assembling umbrellas is in the range of £2.50–3.50 per hour.

Low Pay Commission Visit to Leeds

Figure 3.12

Incidence of Low Pay Among Homeworkers



Source: LFS, Autumn 1997

3.22 A further pattern of work associated with low pay is homeworking. As Figure 3.12 shows, a significant proportion of homeworkers earn less than £3.00 per hour. The Labour Force Survey indicates that around 650,000 people pursue their main job in their own homes. Two-thirds of these (433,000) describe themselves as self-employed and are therefore outside the scope of the National Minimum Wage. But it is sometimes difficult to establish whether they are genuinely self-employed or really employees. This problem is being addressed by the National Minimum Wage legislation and the Government Taskforce on Homeworking. Of those homeworkers who described themselves as employed, two-thirds are women. Furthermore, a survey conducted by the National Group on Homeworking (Huws, 1994) suggested that almost half of homeworkers are non-white, most of whom (36 per cent of all homeworkers) are of Pakistani, Indian or Bangladeshi origin.

3.23 Not all homeworkers are exploited. One employer we met evaluates piecework on the expected hourly production of a 'standard' worker, and homeworkers and their factory-based colleagues are both remunerated on this basis. But most homeworkers we met painted a vivid picture of low pay and in some instances outright exploitation. Evidence

from the National Group on Homeworking (NGH) provides a grim picture of the life of many homeworkers: isolated in their homes, with little or no direct contact or influence with their employer, and receiving extremely low rates of pay. In 1997 the NGH found, across nine geographical areas and seven industries, an average wage of £1.60 per hour, or £57.60 for a 36 hour week.

Where Are the Low Paid?

3.24 The incidence of low pay also varies according to where employees work: in particular, by location, sector, industry and size of firm.

Location

3.25 Figure 3.13 demonstrates the significant variation in the incidence of low pay across travel-to-work areas in the UK. Although low pay is to be found throughout the UK, its incidence varies by region. But Figure 3.14 shows that generally across regions, outside London and the South East, the differences that exist between them are comparatively small.

Figure 3.13

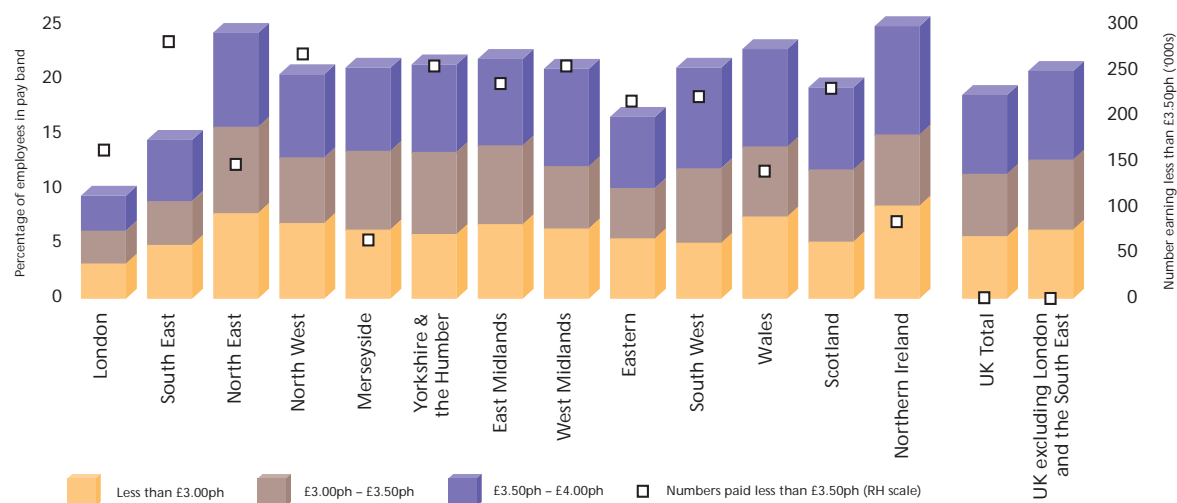
Incidence of Low Pay by Travel-to-Work Area in the UK



Source: NES, April 1997

Figure 3.14

Incidence of Low Pay by Government Office Region



Source: LFS, Autumn 1997

- 3.26 London and the South East are distinct from the rest of the UK. The proportion of low-paid workers in London is farther removed from the UK average than is, for example, that for the North East or Northern Ireland. The position is distorted, however, by the relative densities of population and concentrations of high pay in certain areas: 440,000 employees earning below £3.50 per hour in London and the South East compared with 140,000 in Wales and 80,000 in Northern Ireland.
- 3.27 Although the incidence of low pay varies between regions, it also varies considerably within regions. In some areas, such as large cities, there are significantly higher numbers of low-paid workers, simply because of greater density of population. In addition, low pay is often more concentrated in certain areas within regions because the local labour market is dominated by low-wage industrial sectors. This was illustrated, for example, during our visit to mid-Wales, where we found that the main employment opportunities are in low-paying sectors such as agriculture and retailing.
- 3.28 Table 3.4 shows those travel-to-work areas where, even on NES data, more than 20 per cent of employees earn less than £3.50 per hour. (The average incidence of low pay in travel-to-work areas is 6 per cent.) Although a majority of the lowest-paid areas are in Scotland, the table demonstrates

that low pay occurs throughout the UK. It also shows that the worst affected areas are rural districts.

Table 3.4

Low Pay in Travel-to-Work Areas	
Travel-to-work area	Percentage earning less than £3.50ph
Forres, Morayshire	29
Dartmouth and Kingsbridge, Devon	27
Fishguard, Dyfed	27
Monmouth, Gwent	25
Campbeltown, Argyll	24
Badenoch, Inverness-shire	24
Crieff, Perthshire	23
Bude, Cornwall	21
Skye and Wester Ross	21
Cookstown, Co Tyrone	20
Berwick-on-Tweed, Northumberland	20
UK average	6

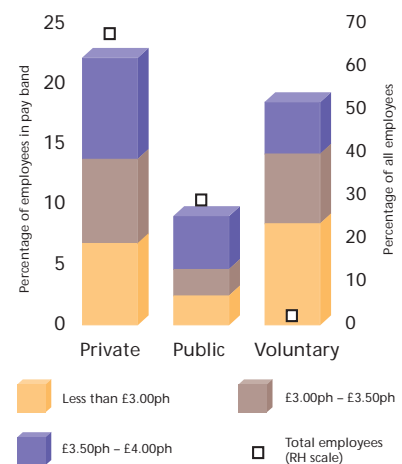
Source: NES, April 1997

Public and Voluntary Sectors

- 3.29 The likelihood of being low paid is also affected by whether a person is working within the private, public or voluntary sector. Figure 3.15 demonstrates that the private sector has a higher proportion of low-paid employees than the public sector. People employed in the voluntary sector are slightly more likely to be earning less than £3.00 per hour than those in the private sector, but are rather less likely to be paid less than £4.00 per hour.
- 3.30 A recent survey conducted by the National Council for Voluntary Organisations and described in its evidence showed that lower-paid jobs in the voluntary sector are generally in types of occupation which have low-paid comparators in the private sector. They are more concentrated in social care and educational organisations – such as playgroups – in the voluntary sector which have grown in significance as a consequence of increased contracting-out of these services by local and health authorities. The survey highlights ‘the development of the “contract culture” – an over 55% increase in real terms of earned income from government’, through provision of contracted-out services between 1990 and 1995.

Figure 3.15

Incidence of Low Pay in the Private, Public and Voluntary Sectors



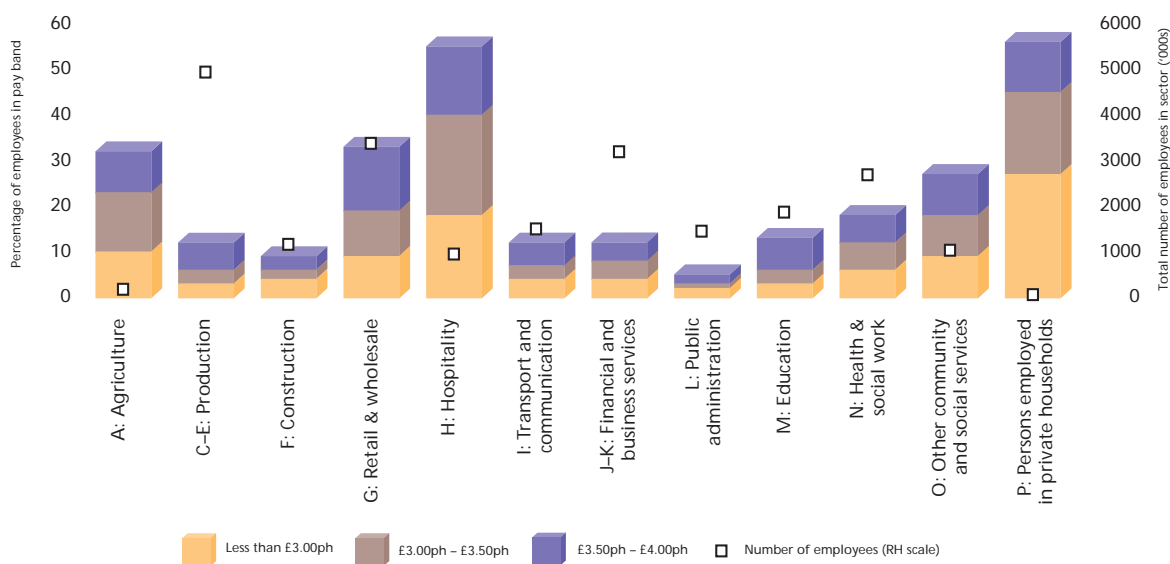
Source: LFS, Autumn 1997

Industry

3.31 Figure 3.16 shows the incidence of low pay in a number of industrial sectors, together with total employment in those industries. It demonstrates that while low-paid jobs are to be found in a wide range of industries, in many of these the numbers of employees, and thus low-paid workers, are small.

Figure 3.16

Low Pay and Levels of Employment by Industry



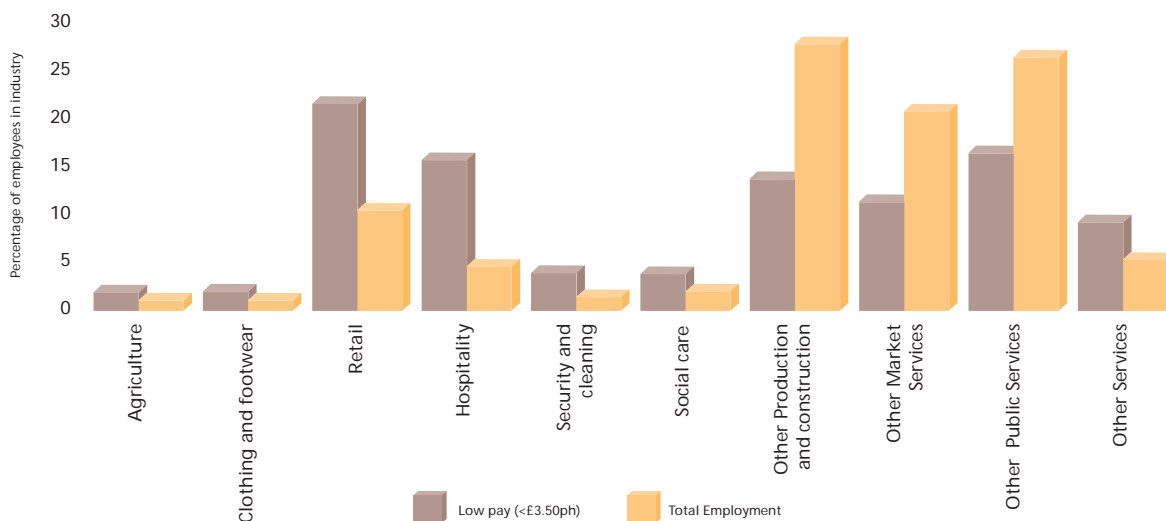
Source: LFS, Autumn 1997

3.32 Figure 3.17 shows the proportions of all employees earning below £3.50 per hour according to the sectors where its incidence is highest. It demonstrates that about half of low-paid work is concentrated in a few industries – retail, business services (contract cleaning and security), social care, hairdressing, hospitality, agriculture, and clothing and footwear – and that the concentration is disproportionately high in comparison with employment in these industries.

3.33 Industry descriptions are based on the Standard Industrial Classification (SIC 92) and do not necessarily provide the most useful breakdown. This is particularly true in the case of the social care sector, which embraces residential, nursing and domiciliary care. We have used class 85.31 ‘social work with accommodation’ as the best indication of this sector, but it probably understates the size of the overall sector.

Figure 3.17

Make-up of Low Pay and Total Employment by Industry



Source: LFS, Autumn 1997

We were told of cases of extremely low rates of pay in some industries. The manager of Ragworth Regeneration cited a post as a security officer which paid £2 per hour and the post-holder had to supply his own dog. Another security post was advertised in May 1997 paying £1.25 per hour, and the job-holder had to pay for the uniform.

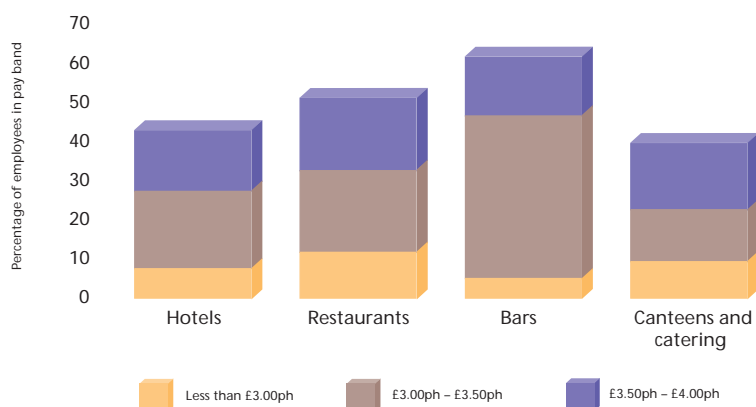
Low Pay Commission Visit to Stockton-on-Tees

3.34 While we examined a wide range of businesses and industries, we particularly considered those sectors identified in Paragraph 3.32 which demonstrate the range of issues and patterns of employment associated with low pay more generally. They employ some 4.3 million workers of whom just over 1.2 million earn less than £3.50 per hour. They are the sectors on which the National Minimum Wage will have the most significant impact. The remainder of low pay occurs in other industries where low-paid employees account for a relatively small proportion of workers.

3.35 There is diversity in the incidence of low pay between different types of business within each sector. Figure 3.18 shows, for example, that low pay in the hospitality industry is more prevalent in bars and restaurants than in larger hotel establishments.

Figure 3.18

Incidence of Low Pay Within the Hospitality Sector

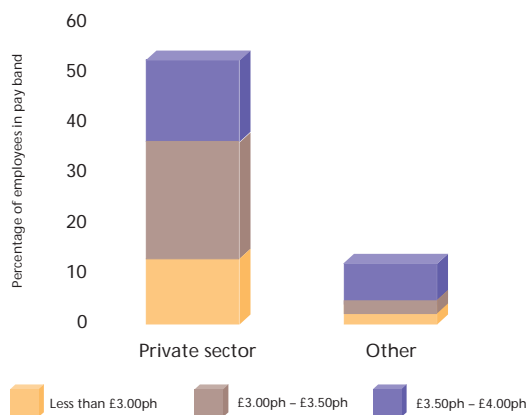


Source: NES, April 1997

3.36 Similarly, within social care, there is a distinction in the degree of low pay between local authority-run homes and privately-owned businesses. We also found a tendency within the private sector for wage levels in smaller homes to be lower than those in the larger ones (see Figure 3.19).

Figure 3.19

Incidence of Low Pay Within the Social Care Sector



Source: NES, April 1997

3.37 In the retail sector the incidence of low pay is greatest in small businesses. But the main distinction in pay levels, as Figure 3.20 shows, is between small and medium-sized businesses and large retail chains.

Small Firms

3.38 The pattern of low pay in smaller businesses in the retail and social care sectors demonstrates a trend within industry generally: a clear link between the incidence of low pay and the size of the business. Although many small businesses pay higher wages, small firms generally pay lower wages than large firms. This is partly influenced by the greater concentration of small firms in low-paying sectors. The Government's evidence, for example, shows that business services and wholesale and retail each account for approximately 24 per cent of all businesses employing fewer than 50 workers, with hotels and restaurants accounting for approximately 9 per cent.

3.39 The Federation of Small Businesses pointed out that low pay is often a factor not only for employees of small businesses but also for the owners. In their oral evidence, they told us that the owner of a small business with an annual turnover of £50,000 could be earning only £5,000 per annum for very long hours, and they provided an example of an owner who receives in-work benefits. This is not an isolated case; figures from the Department of Social Security show that in May 1997 over 100,000 families of self-employed people were in receipt of Family Credit.

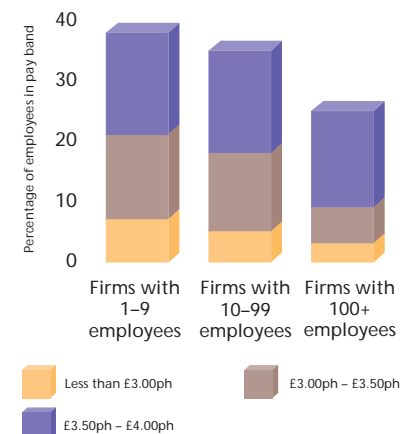
Conclusion

3.40 The likelihood of being low paid is influenced by a range of factors. Female workers are most at risk. Certain groups, such as ethnic minority workers and young people, are also more likely to be low paid. The likelihood is further increased by certain employment patterns such as part-time and casual work.

3.41 The likelihood of being low paid may be affected by the location of the work. Low pay exists in all regions of the UK, however, and the degree of variation between most regions is limited. Low pay is more prevalent in certain sectors, especially in such service industries as hospitality and retailing. It also occurs to a greater degree in small firms and these are more concentrated in low-paying sectors.

Figure 3.20

Incidence of Low Pay Within the Retail Sector



Source: NES, April 1997

‘I own a restaurant and fish bar in Worthing, West Sussex.... I currently pay my staff between £3.50 and £3.90 an hour according to responsibility and merit, but the amount they can earn is governed by what I can afford. I am personally receiving Social Security benefits due to my personal low income and my staff enjoy a better standard of living than I do.’

Federation of Small Businesses Evidence

3.42 The overall pattern of low pay is not straightforward. Many factors frequently combine to increase the likelihood of a particular worker being low paid. A clear example is the high incidence of low pay among women who work part-time: they represent more than two-fifths of all employees earning less than £3.50 per hour. Understanding the pattern of low pay led us to a greater appreciation of the issues concerning low-paid workers and those affecting the businesses and sectors in which they work. Together with the information we gathered from our research and consultation processes, understanding the pattern was critical in developing our recommendations for the definition, application and level of the National Minimum Wage, which are the focus of the remainder of this report.

4 Defining the Wage

In general, low-paid workers receive few, if any, additions to basic pay. In some business sectors, however, variable payments of a business-specific nature, premia and benefits may form a significant part of a low-paid worker's wage. The definition of earnings that may count towards the National Minimum Wage is designed to be simple and fair, easily enforceable and consistent with the needs of business and the low paid. In whatever way workers' pay is defined or whatever hours they work, only their 'standard' pay should count towards the National Minimum Wage. Hence incentive payments, such as commission, tips and gratuities paid via the payroll and piece rates, should count. In contrast, allowances and premium payments which are provided for non-standard work or hours, as well as all benefits with the exception of accommodation, should not count towards compliance. A worker should be entitled to the National Minimum Wage for each hour of actual working time, averaged over the worker's normal pay reference period up to a maximum of one month.

- 4.1 Although most low-paid workers receive only a basic rate of pay, a significant minority have complex pay structures and some are paid entirely on an incentive basis. Not surprisingly, therefore, the question of the appropriate definition of the National Minimum Wage was frequently raised during our visits and hearings, the parliamentary debate on the National Minimum Wage Bill and in the Government's evidence to us. The responses to this question were strongly expressed and differed widely, often reflecting sectoral needs.
- 4.2 The definition of the National Minimum Wage has implications for the numbers of workers covered by it, its potential costs, the ease with which it can be enforced, and its impact on an individual worker's overall earnings. Hence we paid particular attention to the following:
 - **Composition:** Which components within the pay package should be included in the calculation of the National Minimum Wage?

- **Hours:** Which hours of work should be eligible for the National Minimum Wage?
- **Reference Period:** Over what length of time should pay be averaged to confirm compliance with the National Minimum Wage?

4.3 In answering these questions, we bore in mind the point raised by the Low Pay Unit in its evidence that ‘employees will not value a minimum wage if they believe it is arrived at by sleight of hand’. Hence our recommendations are designed to be simple and fair. We aim to ensure that the definition of the National Minimum Wage will be transparent to workers, easy for employers to comply with, and straightforward to enforce.

Basic Rate versus Total Earnings

- 4.4 We received a range of suggested definitions. Simplicity was stressed by many, but interpretations varied about how it was to be achieved. For some a simple definition means total earnings inclusive of all payments and the value of all benefits received, while for others it translates as a basic rate. In their evidence, the British Retail Consortium and the National Hairdressers’ Federation/Hairdressing Employers Association, for example, suggested that the definition should include all earnings subject to Pay As You Earn (PAYE), including commission, bonus payments and benefits-in-kind. The Banking Insurance and Finance Union argued for a basic rate only. Most organisations did not argue for either extreme. Instead, they favoured the inclusion or exclusion of specific components, usually those related to their industry.
- 4.5 Internationally, very few countries use a total earnings approach in defining the minimum wage (see Appendix 6). In the USA and Canada the minimum wage is a basic rate. In most European countries the minimum wage does not include overtime and shift premia or pay for working in abnormal conditions, but incentive payments are included in some countries. General practice is to include only those bonuses which are paid regularly within the normal pay reference period.
- 4.6 Our detailed analysis of both a simple basic rate and a total earnings approach led us to conclude that neither would be workable or fair. The basic rate definition would

undermine remuneration practices represented to us as critical to incentives and productivity in key sectors where payment by results, such as piecework in textiles and clothing, is prevalent. Total earnings would be unfair because workers might be forced, for example, to work overtime or in abnormal conditions to earn the basic minimum through premium pay. Our recommendations reflect our judgment that however workers' pay is defined or whatever hours they work, only pay for 'standard' pay should count towards the National Minimum Wage. Special premia, additions and benefits are, by their nature, compensation over and above that paid for 'standard' work and should not count towards a statutory minimum wage.

- 4.7 On this basis we analysed each of the components of pay. We sought the simplest, most effective and enforceable definition that is consistent with the needs of business and fairness to workers. For simplicity, ease of application and enforcement **we recommend that the National Minimum Wage should apply to the gross amount of those earnings that are defined as included in its scope. The amount should be calculated before tax, National Insurance and other appropriate authorised deductions are made.**

Earnings Components

- 4.8 Few low-paid workers have elaborate pay packages. Most receive just a basic rate of pay with little in the way of premia, allowances, supplements or benefits. Additions to basic pay fall into three broad categories:
- variable payments, based on output, productivity or performance, including bonuses (e.g. profit-related pay), tips and gratuities;
 - premium payments that compensate workers for duties over and above normal working requirements, plus allowances and supplements; and
 - benefits, including benefits-in-kind.

A summary of the main types of earnings components is given in Appendix 7.

- 4.9 The Labour Force Survey (LFS) provides some useful information on the working patterns of the low paid, but does not collect information on pay components. Thus all

data quoted in this chapter are estimates from the New Earnings Survey (NES), April 1997, unless otherwise stated. These data have certain deficiencies. We do not know to what extent payroll records of components match those on the NES questionnaire. More importantly, the NES misses a large proportion of low-paid work, and the level of non-basic pay among low-paid employees may be overstated as a result. It also does not collect data on London weighting or on standby and on-call allowances. And since it does not enable overtime pay to be disaggregated into premium and non-premium elements, we have to look at overtime pay in total.

4.10 Figure 4.1 demonstrates the occurrence of additional payments. The data do not show the incidence of overtime *premium* payments, but many low-paid workers who work overtime are paid only at their basic rate of pay. Profit-related pay, incentive pay and shift premia are each paid to 5 per cent or fewer of all those employees earning less than £4 per hour. In general, additions to the basic rate become more significant at higher levels in the earnings distribution.

Figure 4.1

Percentage of Employees Receiving Additions to Basic Pay



Source: NES, April 1997

4.11 More elaborate pay structures with multiple premia and allowances, including London and other location payments, tend to be found most often in larger organisations and more unionised sectors of employment where pay levels tend to be higher. Moreover, low-paid part-time workers, particularly women, traditionally have less access to additional payments than their full-time male counterparts.

4.12 For the minority of low-paid workers who receive additions to their basic pay, however, such payments can make an important contribution to overall earnings. The incidence and significance of any additions to basic pay depend on the industry in which the workers are employed. Overtime pay (at basic or premium rates) is most common. Figure 4.2 indicates the average contribution of various components to total pay for low-paid employees. Incentive payments are particularly significant in some low-paying sectors, such as payment by results in clothing and footwear, although here the recorded level is lower than industry evidence suggests.

Figure 4.2

Average Additions to Basic Pay for Low-paid Employees by Industry



Source: NES, April 1997

Payments Related to Output, Productivity or Performance

4.13 **Incentive Payments.** Payments related to output, productivity or performance include traditional payment by results schemes – such as piecework, work-measured incentive schemes and productivity bonuses – as well as commission, merit bonuses and profit-related pay. Most low-paid workers are unaffected by these payments. Only 4 per cent of all employees earning £3.00 per hour or less receive incentive pay, rising to 5 per cent at £4.00 per hour.

4.14 For some specific groups, however, a significant proportion of their pay may be dependent on some measure of output, productivity or performance, a point emphasised in sectoral evidence. Incentive pay is most significant for pieceworkers

in textiles and clothing, and commission in retail and hairdressing. If commission were excluded from the definition of the National Minimum Wage, for example, the British Retail Consortium believes it would force retailers to revise pay structures in a way that would be detrimental to productivity in some business sub-sectors.

- 4.15 Our primary concern is to ensure that workers receive the minimum hourly rate, whatever the payment system, for standard work averaged over the pay period. Since incentive payments in some firms and industries form part or all of the core of workers' pay, **we recommend that such incentive payments should be included in the earnings that count towards the National Minimum Wage. We recommend that all pieceworkers must, whatever the piece rate set and output achieved, be paid no less than the National Minimum Wage on average for the pay reference period.**
- 4.16 Those whose pay is entirely based on output or productivity, notably many homeworkers, should be treated in the same manner as other workers and earn at least the National Minimum Wage for the tasks they undertake. Under the earlier Wages Council Orders, homeworkers were treated in the same manner as other factory-based pieceworkers, but were not paid for 'waiting time'. **We recommend that homeworkers and others paid by output, rather than by time, must be paid at least the National Minimum Wage on average for the pay reference period, with employers being able to demonstrate that they have evaluated rates paid to homeworkers to confirm compliance with the National Minimum Wage.**
- 4.17 **Periodic Bonuses.** As part of performance management systems, workers may receive bonuses. These are frequently paid within the pay period in which they were earned, and hence can be included in earnings that count towards the National Minimum Wage. We also considered long-term bonuses which are paid at intervals exceeding the normal pay period; for example, payments from Inland Revenue approved profit-related pay schemes which, as Figure 4.1 shows, are paid to fewer than 5 per cent of low-paid workers. With high staff turnover among the low paid, it cannot be guaranteed that a worker will receive a payment at the end of a pay period if it is normally paid

infrequently. Hence **we recommend that incentive payments should only count in the pay period in which they are received, which may not necessarily be the period in which they are earned.**

- 4.18 **Tips and Gratuities.** We received conflicting evidence about whether tips and gratuities should be included in the National Minimum Wage. Some wish to include all tips and gratuities whether they are paid to the worker via the employer or directly to the worker by the customer. Others argued that tips and gratuities should be excluded altogether. Since tips and gratuities can form a substantial proportion of a worker's standard earnings, when appropriately managed and recorded they can be regarded as equivalent to other incentive payments.

We recommend that any service charge or centrally organised system of distributing tips and gratuities whereby workers receive their share through the payroll, such as the 'tronc', should be included in the National Minimum Wage.

- 4.19 We do not consider cash tips paid directly by customers to staff as remuneration but as gifts to the worker. These may be liable for income tax, but cannot be monitored for the purpose of enforcing the National Minimum Wage. Since the extent to which workers receive such tips cannot be known accurately, **we recommend that cash tips paid directly by customers to staff should be excluded from calculation of the National Minimum Wage.**

Premium Payments, Allowances and Supplements

- 4.20 **Overtime and Shift Premia.** In the evidence we received, a majority of organisations suggested that overtime premia and, to a lesser extent, shift premia should be excluded from the definition of the National Minimum Wage. The Engineering Employers' Federation suggested in its evidence that the definition of the National Minimum Wage should be 'exclusive of any payments made for shiftworking or premia paid for overtime working', as did the Business Services Association.

- 4.21 Few of the low paid receive overtime pay, and even fewer receive shift pay. For those earning £3.50 per hour or less, only 16 per cent of employees receive overtime pay and even fewer receive overtime premia, which account for only 4 per cent of their gross earnings. For those earning

'It would therefore be appropriate for all payments made under... service charge and tronc [systems] to be treated in the same way as normal wages.'

British Hospitality Association Evidence

'Gratuities, unless collected and distributed by the employer... should be excluded.'

National Hairdressers' Federation Evidence

'There is a range of approaches adopted by restaurants across the country regarding tips and service charges. In restaurants where service is not included, employees do receive cash tips over which the employer has no control. Where there is a service charge, whether voluntary or obligatory, and this is added to the bill and distributed by employers, it forms part of their taxable remuneration.'

Restaurateurs Association of Great Britain Evidence

£3.50 per hour or less, only 2 per cent receive shift or unsocial hours payments, and these make up less than 1 per cent of their gross earnings (NES, April 1997).

- 4.22 In the UK, unlike some countries, there is no legal requirement for employers to pay premium rates for shift work or overtime. To the extent that they exist, premium payments have been established between employers and workers over and above basic rates as compensation for non-standard working. Whether or not we include such premia within the earnings definition, employers may well continue to pay them on top of any rates set at the National Minimum Wage in order to encourage shift and overtime working.
- 4.23 We believe it would be unfair to allow employers to satisfy their obligation to pay the National Minimum Wage by including premium pay for abnormal working. Hence **we recommend that premium payments for overtime and shifts should be excluded from the definition of earnings for the National Minimum Wage. When calculating compliance, only standard pay for overtime and shift hours should be counted.**
- 4.24 We are aware that the increase in basic rates necessary to bring some workers up to the National Minimum Wage might increase those overtime and shift work premium payments which are based on a multiple of basic pay, and hence also increase overall earnings. Where such premia are paid, however, employers will remain free to agree with workers to change or consolidate them.
- 4.25 **Allowances and Supplements.** A wide range of allowances and supplements is paid on top of basic pay. They are usually fixed, flat-rate and unconsolidated payments used to compensate workers for special circumstances. They include payments for working in abnormal conditions (e.g. payments for working in dangerous conditions or inclement weather), for extra skills or responsibilities, and for working in particular locations (e.g. London allowances). Further examples are standby or on-call payments for being available for work at short notice to cope with emergencies or staffing shortages, payments for travel and subsistence, and allowances for tools and clothing.

- 4.26 Such allowances and supplements are normally used to compensate workers for undertaking duties beyond the standard requirements. They may also be used as reimbursement for expenses incurred by workers in pursuit of their duties. As such, these payments are similar to premium payments in that employers provide them voluntarily in order to meet particular labour market needs. Their provision is a matter for employers and workers to decide. Hence **we recommend that allowances and supplements should be excluded from the definition of the National Minimum Wage.**

Benefits

- 4.27 Benefits include a wide range of cash and non-cash items, including paid holidays, occupational sick pay, paid maternity leave, pensions, life assurance, company cars, private health insurance, shares and share option schemes, and subsidised restaurants, free meals and luncheon vouchers. Few low-paid workers receive much in the way of benefits. But some benefits-in-kind are a common feature in particular industries (e.g. discounts in retail).
- 4.28 It is difficult to estimate and monitor the value of many benefits. Under many 'final salary' pension schemes, for example, the value of individual employer contributions cannot be calculated easily in each pay reference period and the attribution of pension contributions to individual employees would also be difficult to monitor. On grounds of simplicity and enforceability, therefore, **we recommend that, with the exception of accommodation, benefits should be excluded from the calculation of the National Minimum Wage.** Meals provided as part of board and lodging would be excluded.
- 4.29 In some sectors, particularly agriculture and hospitality, the provision of accommodation or lodging only as a benefit-in-kind is significant, and sometimes is covered by collective agreements. The former Wages Councils allowed such an accommodation inclusion and the Agricultural Wages Boards continue to do so. For employers, the advantage of providing accommodation is that it helps ensure workers are on the premises. For workers, the advantage is that convenient accommodation is available, reducing their costs and preventing problems in locations where finding accommodation can be difficult.

‘In certain sectors, accommodation is an integral part of the employment relationship.... If some allowance is not made for this in the NMW legislation, GMB is concerned that some employers might introduce high rents.’

‘Employees... find it a very important benefit especially in major cities where the costs of obtaining their own accommodation can be prohibitive, and in some rural areas where the hotel may be a long distance from the nearest town in which rented property is available.’

British Hospitality Association Evidence

- 4.30 If we do not allow an accommodation offset to be made against the National Minimum Wage, employers may transfer the accommodation charge from a benefit-in-kind to a cash charge to the worker, which could be particularly disadvantageous to the low paid. Hence **we recommend that an offset should be allowed where accommodation is provided as a benefit-in-kind. In order to protect workers from unreasonable charges, however, a maximum figure of £20 per week should be set for any deduction for the cost of the accommodation.** Since we believe that workers should ideally be remunerated in money not in kind, and should be able to earn enough to pay rent, **we further recommend that the operation of this offset should be monitored and consideration given to phasing it out in the longer term.**

Working Time

- 4.31 We need to establish what constitutes working time for the purposes of the National Minimum Wage. Three definitions of working time are available:
- *Actual working time* exclusive of rest breaks and periods of leave. The European Union Working Time Directive defines working time as ‘any period during which the worker is working, at the employer’s disposal and carrying out his activity or duties, in accordance with national laws and/or practice’ (DTI, 1998b). The Department of Trade and Industry (DTI) is currently consulting on draft regulations to enable implementation of the Working Time Directive in the UK.
 - *Normal working hours*, as defined in Section 234 of the Employment Rights Act 1996, which generally excludes overtime working.
 - *Full working time*, as defined in the Trades Union and Labour Relations (Consolidation) Act 1992, which broadly means any time a person is contractually required to be at work.
- 4.32 The important distinction for our purposes is between time at work and time for which the worker is paid. The latter can include such paid absences from work as holidays, sickness absence and lay-off periods, which are covered by other legislation. The definition should take into account

workers who do not have any contractual hours of work, for example so-called 'zero hours' contracts, and employees who are paid entirely according to their output.

- 4.33 **We recommend that the actual working time definition should define what constitutes working time for the purposes of the National Minimum Wage. The National Minimum Wage should also apply to all working time when a worker is required by the employer to be at the place of work and available for work, even if no work is available for certain periods.** This definition has the advantage of covering agreed 'downtime' hours when workers are on-site but unable to work (e.g. because of machine breakdowns or lack of materials). It includes all agreed overtime hours, including call-out hours for emergencies, but it does not include standby or on-call periods away from the employers' workplace or agreed rest periods.
- 4.34 Certain workers, such as those who are required to be on-call and sleep on their employer's premises (e.g. in residential homes or youth hostels), need special treatment. **For hours when workers are paid to sleep on the premises, we recommend that workers and employers should agree their allowance, as they do now. But workers should be entitled to the National Minimum Wage for all times when they are awake and required to be available for work.**
- 4.35 Workers without fixed weekly hours should receive the National Minimum Wage for all hours actually worked as agreed between them and their employer, averaged over their normal pay period. Such agreement of working time should also be sought for those not working at a fixed place of work (e.g. travelling salespeople). Any worker who leaves a job within a pay period should be paid the National Minimum Wage for hours worked during that period.
- 4.36 Periods of absence would not be included, largely because minimum payments are either already required under other legislation (e.g. statutory sick pay, statutory maternity pay and guaranteed week payments for lay-off periods) or because there is currently no legal requirement to provide pay for these periods. According to the draft regulations for implementation of the Working Time Directive, workers in the UK would have a legal right from October

1998 to three weeks' paid holiday, rising to four weeks in November 1999 (DTI, 1998b).

Pay Reference Period

- 4.37 Finally, we considered the pay reference period over which the National Minimum Wage can be averaged. A number of options were suggested, ranging from an hour to a year. Since we have indicated that the National Minimum Wage should include variable pay components, such as piecework bonuses and commission which may vary from hour to hour and week to week, it makes sense and also enhances the incentive effect to choose a pay period of more than one day.
- 4.38 Given the likelihood of staff turnover and the problems of long-term record keeping, we believe that a year is too long a period over which to average the National Minimum Wage. We considered the option of twelve weeks, which reflects the definition used in the Employment Rights Act 1996 for the calculation of a number of individual employment rights, but concluded it was also too long given the high turnover of workers in low-paying industries. **We therefore recommend that the averaging period for the National Minimum Wage should be the normal pay period, as agreed between worker and employer, up to a maximum of one calendar month.** We believe this is long enough to capture most fluctuations in earnings.
- 4.39 We considered low-paid workers who are covered by annualised hours arrangements, whereby they are paid the same weekly amount throughout the year while the weekly hours fluctuate according to the season or business cycle. Our recommendation could lead to average hourly pay falling below the National Minimum Wage for the period when employees are working the longer hours pattern. We recognise that in such circumstances employers and workers may need to agree to restructure their pay systems.

Conclusion

- 4.40 We have developed a straightforward definition of the National Minimum Wage which is fair and enforceable, while being applicable across diverse pay systems and different sectors. This definition has much in common with minimum wage definitions used in other countries.

- 4.41 Since most low-paid workers receive only their basic pay without additions, confirming compliance with the National Minimum Wage will be straightforward. The calculation will be based on pay for actual working time averaged over the worker's normal pay reference period. For others, including workers whose basic pay consists entirely of incentive pay – such as piecework – those without fixed or easily measured hours and those without a fixed place of work, the definition is designed to enable eligible earnings to be calculated and compliance to be confirmed by the same means, without disrupting existing systems. In whatever way a worker's pay is calculated, components that comprise pay for standard working may count towards the National Minimum Wage, but premia and other additions for non-standard work may not.
- 4.42 We have been keen to ensure that we do not interfere with the ability of workers and employers to reach mutually beneficial agreements about pay structures. Our recommendations needed to meet the twin concerns of employers who wish to ensure that pay flexibility is not diminished, and of workers who seek reassurance that any such flexibility cannot be used to obscure whether the employer's obligation to pay the National Minimum Wage has been met. We believe that we have met both these concerns.
- 4.43 The definition we recommend goes with the grain of existing pay structures, and – what is even more important – it is fair. It provides the basis for defining the precise coverage of the National Minimum Wage for specific groups, such as young people and trainees, and for determining the rate, which we consider in the following chapters.

5 Training and Development

Training and development improve people's employability and enhance their ability to command higher wages. Young people, in particular, must receive the necessary coaching, experience and training to prepare them for working life. All 16 and 17 year olds in work should be receiving some education or training. Apprenticeships provide young people with quality training and this training should be supported and encouraged. Hence all 16 and 17 year olds and all those on formal apprenticeships should be exempt from the National Minimum Wage. Ideally, the majority of 18–20 year olds in work would be in some form of accredited training. Many currently do not have access to training, however, and they occupy a vulnerable position in the labour market. These young people are most at risk of unemployment if the industries in which they work are subject to a sudden increase in wage costs. For them, the most critical issue is protection of job opportunities. We must be prudent: young people aged 18–20 can be paid a National Minimum Wage set at a Development Rate in order to protect their position in the labour market while employers develop training procedures. But training is relevant for all age groups. For those aged 21 or above who are beginning a new job with a new employer and are on accredited training, the Development Rate may be applied for a maximum of six months.

5.1 Without a good foundation of education and skills, people are far less able to find work or to retain and improve their position in the labour market; they are also much more likely to move in and out of jobs. A National Minimum Wage cannot address directly the need for better skills development. But training is an important route to long-term self-sufficiency, particularly for the young and other low-paid people. We are keen therefore to ensure that the National Minimum Wage is sufficiently adaptable to encourage skills development as an integral feature of a modern, developing workforce.

‘The Government recognises that it is important to national prosperity and long-term growth to encourage people to continue throughout their lives to develop their knowledge, skills and understanding and improve their employability in a changing labour market. We need to facilitate access to further learning and training, improve its quality, reduce the barriers to individual motivation, and persuade employers to invest in the workforce.’

HM Treasury (1997a)

‘A training rate should be applicable to new employees of any age.’

Confederation of British Industry Evidence

‘There is a case for trainees of any age to be entitled to a percentage of the full minimum wage while they acquire the competencies required to undertake their full range of duties.’

Trades Union Congress Evidence

‘The sector increasingly recognises that competitiveness depends on effective training and there are many schemes being employed to achieve this – e.g. NVQs [National Vocational Qualifications], Investors in People, Modern Apprenticeships and National Traineeships. At the same time these are a considerable absolute cost and some might perceive it as a payroll charge to be reviewed if other wage costs were to increase. There is therefore the opportunity to connect the National Minimum Wage either to training being done or to trainees in recognised schemes.’

Association of Licensed Multiple Retailers Evidence

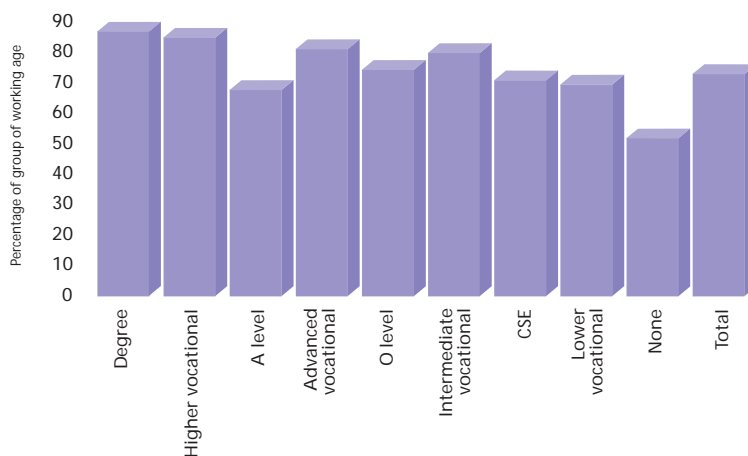
5.2 We received a strong message from the written and oral evidence and from our visits across the UK that the National Minimum Wage should help support training. We were struck by the broad consensus not only that training needed recognition, but also that this should not be age-bound. Although the general expectation was that young people are most in need of training, we were told that training is relevant to all ages, and particularly to those returning to the labour market.

Young People in Education and Training

5.3 Training and development are particularly important for young people. The acquisition of qualifications, skills and experience at an early age improves employability, reduces the likelihood of subsequent unemployment and enhances prospects of higher wages later in life. Figure 5.1 shows that people with some kind of qualification are much more likely to be in work than those with no qualifications.

Figure 5.1

Employment Rates by Highest Qualification



Source: HM Treasury (1997b)

5.4 We considered in depth how the National Minimum Wage might affect the development of young people, both in terms of their education and work-based training and, critically, of the availability of job opportunities. In doing so, we took particular account of the specific remit given to us by the Government ‘to make recommendations on lower rates or exemptions for those aged 16–25’.

5.5 Figure 5.2 details young people’s participation in the labour market. It shows that while the proportion in employment rises quite sharply up to around age 22 or 23, the key changes occur between ages 16 and 21. More 18 year olds are in full-time education than employment, but the picture changes over the next few years such that more than twice as many 21 year olds are in employment as in full-time education.

‘The implication [of the increasing demands of employers] is that all young people need to be in a development process leading to an NVQ level 3 if they are going to maintain employability in the labour market coming about as a result of technology and industrial changes.’

Dr Phil Blackburn, Chief Executive,
West London Training and Enterprise
Council Evidence

Figure 5.2

Economic Activity by Age



Source: LFS, Autumn 1997

16 and 17 Year Olds

5.6 Some 70 per cent of 16 and 17 year olds are in education or training. Of all 16–64 year olds, those aged 16 and 17 account for two-fifths of people in full-time education, but only 1 per cent of all those in employment (LFS, Autumn 1997). If these young people are to establish a secure foothold in the labour market, they must develop the broad, basic and transferable skills that education and training offer. Without these skills, they may find themselves throughout their lives moving from a low-paid job into unemployment and back, perhaps to even more poorly paid work.

5.7 We received evidence from many organisations which reinforced our view that 16 and 17 year olds should not be regarded as fully participating in the labour market.

‘When a minimum wage exists, the Agency believes that it should apply to all adults, all people over 18.... All young people over the statutory school leaving age and not yet 18 should be expected to spend at least part of their “work time” in appropriate education or training – the expectation should be that no 16 or 17 year olds are in full-time employment without education or training opportunities and that this is an obligation on any who employ them.’

National Youth Agency Evidence

In preparing its evidence, the National Youth Agency consulted a number of influential youth organisations. One of their conclusions, accepted by all except the British Youth Council, was that there should be an exemption or lower rate for 16 and 17 year olds, primarily to help support existing and planned education and training initiatives.

- 5.8 The Government’s Investing in Young People strategy is focused on 16 and 17 year olds. National Traineeships focus on 16 and 17 year olds who have left compulsory education. The overall objective is to improve the employability of young people through work-based training towards National Vocational Qualification (NVQ) or Scottish Vocational Qualification (SVQ) Level 2.
- 5.9 The proposed legislation ‘Right to Time Off for Study or Training’ is targeted at all those 16 and 17 year old workers, at present around one hundred thousand, who have left full-time education without obtaining a certain level of qualification. They will have a statutory right to paid time off to pursue approved qualifications in the workplace, at college, with a private training provider, or elsewhere. The precise standard of achievement will be prescribed through regulations, but is currently expected to be NVQ/SVQ Level 2 or equivalent.
- 5.10 Overall the new policies should mean that very few of this age group will be in the labour market ‘full-time’ without any broad education or training. If society wants 16 and 17 year olds to pursue their education and training when they are in work, and we strongly believe that it should, then it is unreasonable to expect employers necessarily to pay them the same rate as they pay their experienced workers. Indeed, employers would probably be reluctant to offer work to 16 or 17 year olds in such circumstances. Equally we do not wish to encourage these young people to enter the labour market fully too early by establishing their legal entitlement to a certain level of wage. Hence **we recommend that all those aged 16 and 17 should be exempt from the National Minimum Wage.**

Right to Time Off for Study or Training

- It will apply to employees aged 16 or 17 who are not in full-time secondary or further education, and have not achieved the standard of achievement prescribed by the forthcoming regulations. It will also apply to 18 year olds if they began their study before turning 18, and meet all the other conditions.
- These employees will be entitled to take time off during their working hours in order to undertake study or training leading to a relevant qualification. This is defined as an external qualification which would lead them to obtain the standard as prescribed in the forthcoming regulations and which would be likely to enhance the employee's employment prospects (whether with the same employer or otherwise).
- The amount of time off must be reasonable in all the circumstances and have regard to the requirements of the study or training and the circumstances of the business of the employer or principal and the effect that the employee's time off will have on the running of that business.
- Anyone exercising their right is entitled to be paid for the time taken off at their normal hourly rate.
- Employees may complain to an Industrial Tribunal if they believe the employer has unreasonably refused to permit them to take time off or the employer has failed to pay whole or any part of any amount to which the employee is entitled.

Department for Education and Employment (1998e)

Apprenticeships

- 5.11 We looked at the experiences of other countries with a statutory minimum wage to see if any lessons could be learned about the treatment of young trainees. Practice varies, but countries which do have lower rates usually supplement any age-related conditions with special treatment for apprenticeships or other accredited training. We were also impressed with the system which operates in Germany, where the move from school to work commonly takes place through a tightly-managed apprenticeship system giving young workers identifiable and transferable skills.
- 5.12 Although in the UK traditional apprenticeships have generally declined, they continue to be important for training young people in certain industries. The training

‘The German dual system of apprenticeship training is a key factor in the more successful school-to-work transition in Germany than in the United States and helps explain the low level of German youth unemployment.’

Gitter and Scheuer (1997)

normally combines the development of industry-specific skills with more general vocational education involving proper certification. For most traditional apprenticeships, rates of pay increase in stages throughout the training, with a significant difference between starting and completion. The majority of pay scales increase annually, but some scales are age-related and others increase according to competence, skills or milestones reached.

- 5.13 Traditional apprenticeships are increasingly being replaced by Modern Apprenticeships. There are currently around 80,000 traditional apprentices in the UK but over 117,000 young people participating in Modern Apprenticeships just in England and Wales. Although formal eligibility extends to people aged up to 25, two-fifths of participants start before they are 18 years of age. Ninety seven per cent of participants have employed status. In Scotland around 7,000 young people participate in Modern Apprenticeships as part of the Skillseekers programme, of whom 97 per cent have employed status. In Northern Ireland, around 3,000 people are on Modern Apprenticeships as part of the Jobskills Programme. Funding for training is provided in England by the Department for Education and Employment (DfEE) via Training and Enterprise Councils (TECs) and by the relevant departments for the rest of the UK. The amount of subsidy is determined by, for example, the type of occupation, the nature and duration of training, and the type of training provider.
- 5.14 The pay levels for Modern Apprenticeships vary greatly. Data from Manchester TEC, covering a small sample of Modern Apprenticeship vacancies during April–December 1997 in the 16–22 year old age group, showed that on average the starting pay was around £110 per week. Modern Apprentices we met were typically on wages ranging from £87.50 to £175 per week (£2.30 to £4.61 per hour, assuming a 38 hour working week), depending largely on the length of time they had been involved in training. A survey by Industrial Relations Services (IRS, 1997) found that the median annual starting salary for apprentices (including Modern Apprentices) was £6,500. This equates to around £125 per week or, assuming a 38 hour working week, around £3.29 per hour.
- 5.15 Talking with Modern Apprentices in Tyneside, we were struck by their enthusiasm for the programme. To them it offered a real opportunity: a wage, proper training and career progression. One of the young trainees told us that: ‘my friends

laughed at me when they heard I was doing this training. ...
Now they're all doing them [Modern Apprenticeships].'

Christine (age 16) was a Modern Apprentice. Her previous employer had paid her £100 per week, but was not prepared for her to continue her training, which required her to study one day each week. She left that job to take up a Modern Apprenticeship place which paid only £60 a week to start with, but with an employer who was committed to support her training to NVQ Level 3. She believed that the qualifications were worth the cut in wages because she believed that in the future, with her qualifications in hand, she would get a better job with better money. 'I wouldn't take a job if they did not offer training.'

Low Pay Commission Visit to Tyneside

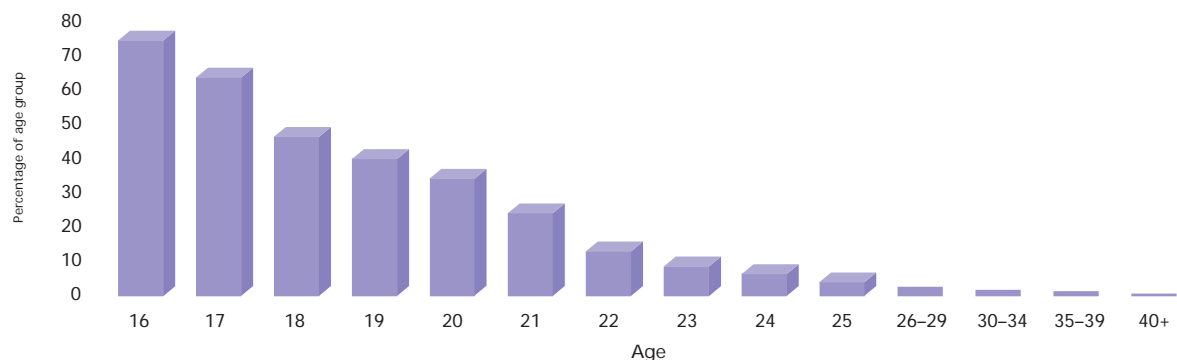
- 5.16 It seems clear that by the second or third year of an apprenticeship, wages are often well above the level we are recommending for the National Minimum Wage. But for the first year or phase they are likely to be low, reflecting the extent to which the apprentice is in training rather than productive work. We must ensure that we do not cut across this important means by which young people acquire skills which will equip them for well-paid work. Hence **we recommend that all those on apprenticeships should be exempt from the National Minimum Wage.**

Education of Those Aged 18 or Over

- 5.17 At age 18 or over, many young people are still in full-time education. Figure 5.3 shows that almost half of all 18 year olds, two-fifths of all 19 year olds and a third of all 20 year olds are studying full time. By age 21 the proportion falls to a quarter before declining still further (4 per cent by age 25).

Figure 5.3

Persons in Full-time Education by Age



Source: LFS, Autumn 1997

- 5.18 Of the 18–20 year olds (over 800,000) in full-time education, one-third (290,000) also have jobs. Given the growing numbers of students, and the increasing financial pressures they face, the number of people combining education and work is likely to increase. Working while in education is an important means by which students support themselves, and it provides a crucial introduction to the world of work. Without access to jobs, participation in higher education, which is currently increasing, could decline.
- 5.19 Students may have an easier task than other young people in finding work. They can appear generally more attractive to employers than those seeking full-time work: they tend to be better educated; they are willing, and indeed looking, to work very flexibly; and they are usually not seeking any longer-term investment from the employer. Moreover, the supply of students matches seasonal peaks in some sectors, such as hospitality. Employers recognise and reward the value of education, its impact on competence and productivity, and this tends to be reflected in pay levels.

Other Job-Related Training

- 5.20 Reliable data on the extent and type of training outside formal apprenticeships are hard to obtain. Such training can involve formal courses, a few hours learning how to complete a specific task, or being given some general health and safety information. But young people in particular need to develop broadly based, transferable skills and gain experience of the working environment.
- 5.21 Some employers, mostly the larger ones, run their own in-house training schemes. Some are assessed against NVQs/SVQs, and those not linked to formal accreditation are often widely recognised within their own industries. Some larger members of the Association of British Travel Agents, for example, provide their own in-house training for school leavers. For older staff who already have some experience of working in the industry, a further range of training and qualifications is available. The skills and competencies that these high quality in-house programmes provide are often as transferable as those linked to NVQs/SVQs, both within the industry and sometimes outside as well.

‘We believe the future prospects of young people should be safeguarded. They should have the opportunity to enter the workplace, be properly trained and learn the various skills including teamwork, the work ethic and the sharing of responsibilities.’

Scottish Grocers' Federation Evidence

Granada has developed its own in-house training programme, which provides evidence to meet NVQ Level 2. There are three skill levels for each type of job within the group: basic, multi-skilled, and advanced. The skills and competencies developed through this training are transferable both within the sector, but also more generally. The key skills in the basic level, for example, include questioning and listening skills, teamwork, working under pressure and taking initiative. As with the NVQ model, employees use a workbook throughout their training to demonstrate that they have developed the key skills required for each level. Training assessments are carried out at the end of each module. Trainees are credited with achieving the appropriate level of NVQ.

Information from Granada Group plc

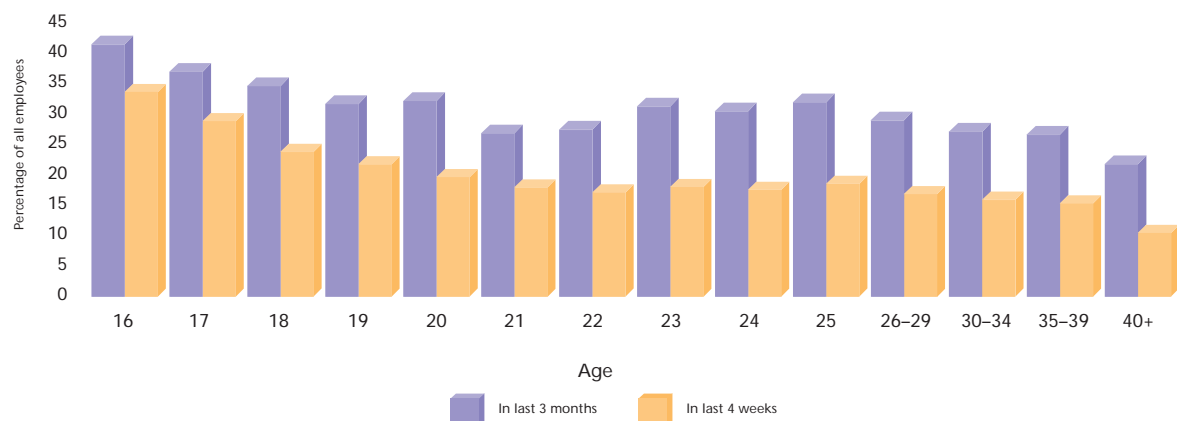
5.22 Certification of some sort is important to workers.

A survey for the Union of Shop, Distributive and Allied Workers (Forrester et al., 1995), for example, reported that ‘shop workers value certificates highly. They are tangible proof that they have gained new skills and knowledge.’ Young people we met confirmed this. They were absolutely clear about what amounts to ‘valuable’ training: it has to be clearly documented, widely recognised and allow them to develop their careers throughout their lives.

5.23 In general, too few people in work are in receipt of accredited training. Figure 5.4 provides a snapshot from the LFS giving details of training received in the period immediately prior to the survey. Although more young people receive training than older workers, differences

Figure 5.4

Employees who Received Job-related Training in Last 3 Months/4 Weeks by Age



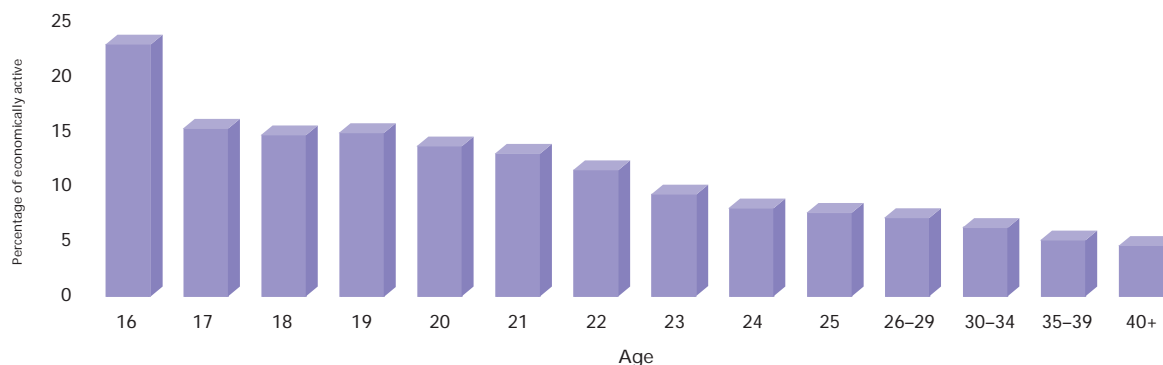
Source: LFS, Autumn 1997

‘The reason for special concern about youth unemployment is not just that it is relatively high, but also that it comes at a crucial stage in a lifetime. The anxiety must be that young people who fail to obtain work experience at this stage will miss out an essential induction into adult responsibility and independence.’

Council of Churches for Britain and Ireland (1997)

Figure 5.5

UK Unemployment Rate by Age



Source: LFS, Autumn 1997

remain between the skills young workers have and those employers require – the ‘skills gap’. According to the Skill Needs in Britain Survey (IFF Research Limited, 1997), 18 per cent of employers reported the existence of a skills gap among all workers, but this proportion doubled (37 per cent) when employers were asked only about workers aged 16–19. Young workers benefiting from training are likely to close that gap more quickly and be generally better prepared for working life.

Young People Not in Training: The Threat of Unemployment

5.24 The majority of young people in work should be pursuing further education or structured training. In practice, they are often not doing either and are employed in relatively low-skilled jobs with little chance of proper development. Some of these young people are the most vulnerable workers in the labour market. This is particularly true of those in sectors or firms with no culture or tradition of training; indeed, where structured training may be considered almost an irrelevance. With few opportunities to improve their job-specific skills, and no opportunity to develop more broadly, these young workers are most at risk of having limited job opportunities. And young workers are far more likely to be unemployed than older workers. Figure 5.5 shows that 19 year olds are twice as likely to be unemployed as 25 year olds.

- 5.25 Unemployment is damaging not just at the time it happens, but also for the longer term, because it can damage future earnings growth. Furthermore, the effects of unemployment can be particularly damaging for young people. Early unemployment may leave scars which, through demoralisation and alienation, can affect the broader socialisation process as young people move into adulthood. In terms of specific labour market experiences, youth unemployment can prevent the development of basic workplace skills. This, in turn, can permanently impair the ability to command more secure employment and better wages, leading to a higher probability of unemployment in later life.

New Deal

- 5.26 The Government is clearly determined to tackle youth unemployment. The New Deal for 18–24 year olds is costing around £3.5 billion and aims to ‘improve the labour market attachment of young people by improving work skills and disciplines and helping them to find and stay in work’ (HM Treasury, 1997a). The target of helping into work within five years a quarter of a million young people who are long-term unemployed makes this the most significant attempt to tackle youth unemployment ever undertaken in the UK.
- 5.27 Education and training for this age group are central to the New Deal. It is through training, further education and work experience that the New Deal aims to address youth unemployment and its associated economic and social problems.
- 5.28 In our deliberations about young people and the National Minimum Wage, we were keen to support the New Deal. We were clear about the need to avoid the National Minimum Wage acting as a disincentive for employers to become involved in the initial six-month phase or to offer permanent jobs. The aims of the New Deal played a significant part in our thinking while developing our recommendations.
- 5.29 It is important that young people should not face an increased threat of unemployment resulting from the introduction of the National Minimum Wage. In deciding whether any variation on the National Minimum Wage rate was necessary for young people, we therefore considered

‘It has been said that youth unemployment is a general experience and even occurs prior to entry to higher paying jobs later. It is just a jobs queue. But evidence from the National Child Development Survey suggests that early unemployment is associated in later life not just with poor labour market success but with increased chances of more general negative social outcomes. This is true even when education and family backgrounds are taken into consideration.’

Paul Gregg, Centre for Economic Performance, London School of Economics, Correspondence with Low Pay Commission (May 1998)

‘In the past, there appeared to be two options for the unemployed: the dole or makeweight schemes. Instead, we want to see real jobs with real training leading to real success. People moving off welfare and into work, enhancing their own employability.’

Rt. Hon. David Blunkett MP, Secretary of State for Education and Employment (1998)

‘Britain’s New Deal for the under-25s offers a training guarantee of one day per week for six months. The training subsidy amounts to around one-third of the total public investment per participant.’

McCormick (1998)

their current wage levels and sectoral concentration to assess whether their job opportunities were particularly vulnerable.

Wage Levels

- 5.30 Data on young people’s pay are even more unreliable than pay data in general. The work of the Office for National Statistics (ONS) on proxy response (where the intended respondent is not present and information is provided by a related adult member of the same household) in the LFS indicates that earnings of young people are understated to a greater extent than those of the population as a whole (see Appendix 2). Thus although there is a gap between the earnings levels of young and older workers, this gap is likely to be smaller than the raw LFS data indicate.
- 5.31 For many young people, low pay is a temporary phenomenon, reflecting the period in their working lives when they are gaining experience and finding jobs which suit them. Once young workers get and keep a job, they begin to acquire skills and experience and their pay increases rapidly.
- 5.32 But young workers are far more likely than older workers to be among the low paid. Table 5.1 shows that those aged 18–20 are more than three times as likely as those aged 21–25 to be in the lowest pay decile.

Table 5.1

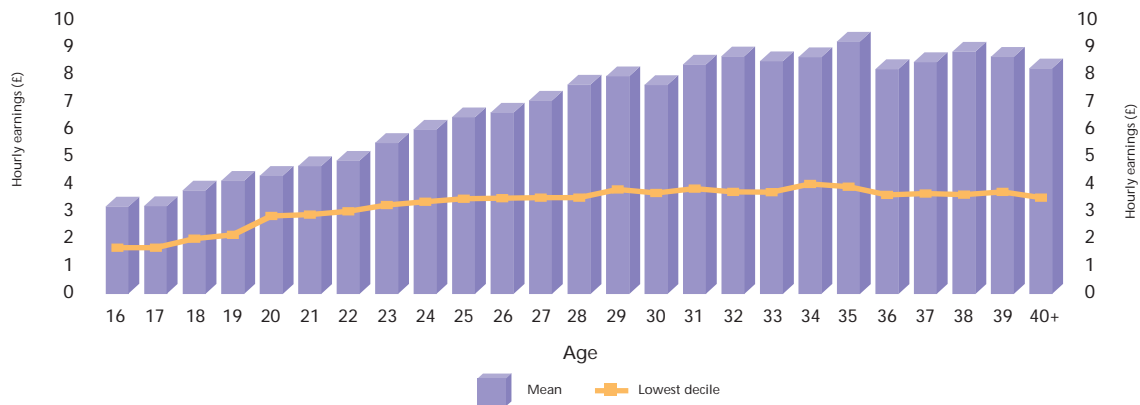
Probability of Being a Low-paid Worker by Age	
Age	Percentage of people in these age groups represented in the lowest paid 10 per cent of wage earners
16–17	65
18–20	37
21–25	11

Source: Government Evidence (LFS, Spring 1997)

- 5.33 Figure 5.6 shows that average hourly earnings rise significantly from around £3.60 at age 18 until levelling off around £8.60 by age 32. But looking at the lowest decile of earnings, where our interest mainly lies, we see that these begin to level off at age 20 or 21.
- 5.34 Explanations of this profile have much to do with the acquisition of skills and experience, and workers finding

Figure 5.6

Average and Lowest Decile Hourly Earnings Levels by Age



Source: LFS, Autumn 1997

better job matches over time. Many employers presented an overall perception and practice which recognised that younger people need to build up capacity over time to achieve productivity levels similar to older, more experienced workers.

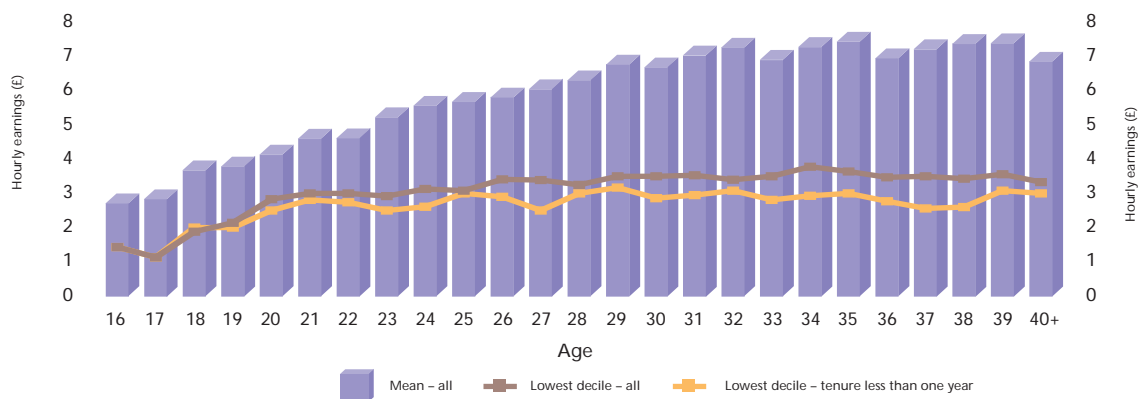
- 5.35 It is therefore informative to look at the position of non-graduates not in full-time education. Figure 5.7 shows that lowest decile hourly earnings increase fairly sharply until age 20, before rising steadily but more slowly until the mid-thirties. Some of this increase might be explained in terms of the experience which comes with job tenure. This is confirmed by looking at the group again, but this time excluding those who have been in their jobs for more than a year. The result, also shown in Figure 5.7, is that the sharp rise in lowest decile earnings levels off almost completely after the age of 21.

‘The justification for proposing an exemption revolves around lower productivity. The distinction, in terms of productivity and retention, between those without any experience and those with, for example, 3 years’ experience, is substantial.’

British Retail Consortium Evidence

Figure 5.7

Hourly Earnings of Non-graduate Employees Not in Full-time Education by Age



Source: LFS, Autumn 1997

‘The hospitality industry is a major provider of many new jobs in this country, and is expected to be so at least for the coming decade. It is essential that its ability to provide jobs particularly for young people and those with lower educational attainment is not damaged by a minimum wage set at too high a level for those entering the industry and requiring training.’

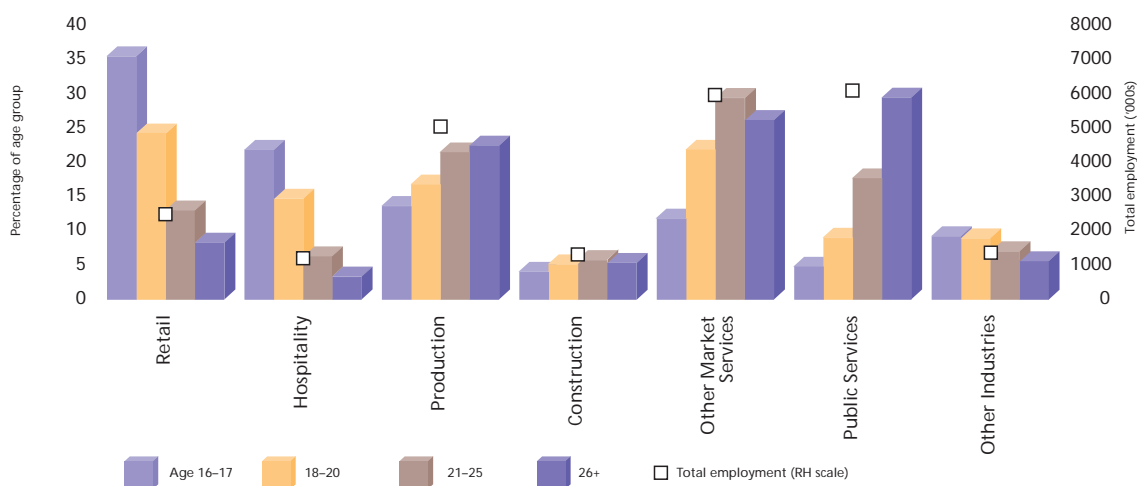
British Hospitality Association Evidence

Sectoral Distribution

- 5.36 Figure 5.8 shows that young workers tend to be concentrated in a small number of business sectors. Retail and hospitality are particularly significant employers of young people, accounting for around half of 16–17 year old employees and two-fifths of 18–20 year olds.
- 5.37 Figure 5.9 shows that in all sectors, the lowest decile pay of 21–25 year olds and those over age 26 is similar, while the lowest decile of 18–20 year olds is paid less than older workers. The lowest decile of 18–20 year olds in the retail sector, for example, earn less than £2.25 per hour, whereas in hospitality the comparable pay level is £2.10 per hour.

Figure 5.8

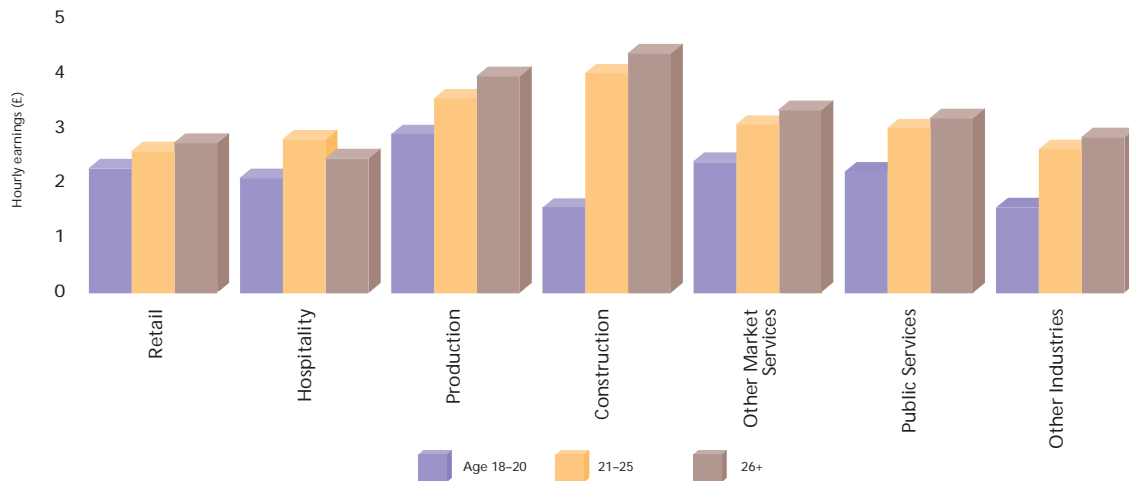
Employment by Age and Industry



Source: LFS, Autumn 1997

Figure 5.9

Lowest Decile Pay by Age and Industry



Source: LFS, Autumn 1997

5.38 The sectoral concentration is significant in introducing the National Minimum Wage. Too sudden a rise in the wage bill for young people would have a major impact on a small number of sectors, and these sectors are critically important in offering job opportunities for young people. If young workers suddenly become much more expensive, employers might in certain circumstances replace them with, or choose to recruit instead, older workers. International evidence, though by no means conclusive, tends to suggest that this might be the case (OECD, 1998b).

‘While the empirical literature tends to disagree about the overall employment effects of the minimum wage, many studies do confirm that a high minimum wage has detrimental effects on youth employment.’

Organisation for Economic Co-operation and Development Evidence

Special Treatment of Young People

5.39 The threat of unemployment for young people, particularly those with poor skill levels, is far greater than for older workers. Since a large number of young workers are concentrated in only a few industries and are paid on average less than older workers, we had to be cautious in recommending a National Minimum Wage for this group.

5.40 In considering exemptions for, or a possible lower rate of, the National Minimum Wage, we had to decide for what age groups these might apply. Our terms of reference explicitly asked us to consider young people up to the age of 25. The position for 16 and 17 year olds and apprentices is clear; they are essentially in a preparatory stage, and should be exempt from the National Minimum Wage.

‘At the age of 18, young people are expected to face up to adult responsibilities in a whole variety of ways. The corollary of this is that where they are performing a proper job they should be paid the rate for it.’

Union of Shop, Distributive and Allied Workers Evidence

‘On the basis of my research, I would argue for lower minimum wage rates under the age of 20. However, for workers aged 20 or over, a lower rate could only be justified if it was linked to an undertaking by the employer to provide formal training.’

Dr Stephen Bazen, University of Bordeaux, Correspondence with Low Pay Commission (April 1998)

‘To expect someone joining the staff at the age of 20 years having to wait until they are 25 years old for parity is the perfect [recipe] for discontentment and high staff turnover, both detrimental to our elderly patients.’

Evidence from a Private Residential Home in Devon

But for those over the age of 18 not in structured training, the picture is very mixed.

- 5.41 A number of employers as well as employee representatives argued that people are young adults at age 18 and should be treated no differently from older workers. And unions argued strongly that workers are adult at age 18.
- 5.42 Incomes Data Services (IDS, 1998b) reported that ‘in most industries, employees are paid adult rates from the age of 18.... And recent trends indicate a general move away from the concept of age-related pay scales towards shorter term trial periods and skills or competency-based entry rates.’ This is true in both the private and public sectors. During our visit to Liverpool, for example, Littlewoods told us that they have moved away from an age-related pay system to one which is competency-based and which they intend to link with NVQs. Examples in the public sector include the Cabinet Office, the Home Office, Customs and Excise, the Inland Revenue and the Department of Trade and Industry.
- 5.43 Economic evidence points to a variety of ages when the full National Minimum Wage might best be applied. The concentration of young people in the lowest decile of earnings might lead to the conclusion that the age of 21 or 22 would be an appropriate cut-off point (see Figures 5.6 and 5.7). But the really dramatic distinctions in the youth labour market are in the earlier years: the most rapid change takes place in the years up to the age of about 20. Thereafter the transition from young worker to adult slows down.
- 5.44 Our judgment has to be informed by actual labour market practices. To put flesh on the economic data we specifically asked those giving evidence and those we met throughout the UK for their views on exceptions for young people. A significant number considered that the adult rate should begin at age 18 or 19; the British Retail Consortium argued for a cut-off at age 19; the British Hospitality Association in its evidence concluded that ‘the minimum wage should not apply to any staff aged under 21’; the overwhelming majority thought that any lower rate should not extend beyond the age of 20; an age differential beyond 20 was generally seen as an unwelcome and unnecessary complication.
- 5.45 We cannot be certain that we know just how the youth labour market will respond to the introduction of the

National Minimum Wage. Those in the youth labour market, or trying to enter that labour market, are among the most vulnerable in the workforce. Above all else they need work, and they need work which will allow them to acquire basic skills to enable them to develop. We believe that applying the full National Minimum Wage to all young people when their current earnings have fallen so far behind older workers puts these opportunities at unreasonable risk.

- 5.46 We remain concerned about unemployment at any age. But by age 21 people are likely to need positive labour market intervention, such as the Government's New Deal and other unemployment and training strategies, to help them back to work. We consider therefore that by the age of 21 a worker should be regarded as an adult and be covered by the full National Minimum Wage.
- 5.47 Many young workers are really novices rather than fully-skilled workers. Investment in young workers would bring benefits not only to them but, through higher productivity, to employers as well. Ideally, we would prefer to link a lower rate of the National Minimum Wage to such investment. In the longer term this lower rate, the 'Development Rate' for young people, should be linked with, and clearly dependent on, the promotion of structured training and development. Government, employers and training organisations need to develop coherent strategies for the education and training of 18–20 year olds.
- 5.48 But we need to have regard to the labour market as it is now. To avoid the threat of making youth unemployment worse, and losing valuable employer investment in young workers, **we recommend that a minimum Development Rate should be available for all 18–20 year olds.**

Training and Development for Those Aged 21 or Above

- 5.49 The National Minimum Wage needs to be sufficiently flexible to complement not only the policies and strategies being developed now, but those that may become necessary over the next few years. It needs to recognise that the acquisition of skills is not simply an issue for the young. People of all ages may need access to training and development. The needs of older trainees, however, are

'In BRC's view, it is impossible to justify different levels of pay, say for those aged 24 and those aged 25, who are undertaking the same tasks.'

British Retail Consortium Evidence

'The most productive investment will be linked to the best educated and best trained workforces, and the most effective way of getting and keeping a job will be to have the skills needed by employers.'

Department for Education and Employment (1998d)

often qualitatively different from those of young workers entering the world of work for the first time. Older workers will have had experience of the discipline of work that all employers require in respect of timeliness and being appropriately presented. The focus of training is more likely to be on the acquisition of additional, specific job-related skills which allow access to a different type of employment. We are keen to ensure that the available Development Rate is applicable to all those starting in new employment, with a new employer, whatever their age. This we believe gives older entrants the best possible chance of acquiring different skills and developing a new career.

5.50 Wherever possible, employers should be encouraged to take on and retrain those people, such as women returning to the labour market after raising children and those who have been unemployed for long periods, who are returning to employment after a break. For the long-term unemployed, the Government is introducing in June 1998 a New Deal for those aged 25 or over who have been out of work for two years or more. New approaches for those in this age group who have been unemployed for 12 and 18 months will be piloted in November 1998. People joining the labour market, whether newcomers or people returning after absence, are in particular need of training. Without an incentive, there is a danger that employers either will not offer these people work, or will hire them but not train them.

5.51 Training and development represent an investment by both the employer and the worker to develop specific skills. They are the means through which workers acquire the skills which are key to the success of the organisation. The Transport and General Workers' Union in its oral evidence usefully distinguished between 'familiarisation' and substantial training and development. 'Familiarisation' is the process all employers use for the induction of new staff. In that it enables a new worker to settle in quickly, it is of obvious and immediate benefit to the employer. It is not something that could be promoted by a lower wage rate. Training and development are clearly far more complex than 'familiarisation', involving a genuine investment by employers and workers alike in the development of valuable, transferable skills.

5.52 Training staff can represent a substantial investment by employers, involving both the direct financial cost and the

‘It is legitimate to differentiate between trainees and other employees if it really is a question of providing real training to bring new and less skilled workers up to the level of their fully trained colleagues. In this situation trainees will not be doing exactly the same job as other workers.’

cost of output lost while the worker is training. In these circumstances, it is common for employers to acknowledge the absence of the required level of skills and the transition to full competence by paying the workers a lower wage for initial training, thereby balancing some of their costs. In this way, the trainees are sharing the costs of their training with their employer.

- 5.53 If employers are to be given an incentive to train by being able to pay a lower rate for the period when a worker is undergoing initial training, the difference should not be such that it becomes a disincentive to potential workers to take up the post offered. At the same time the step-up on completion of training should be a meaningful recognition of achievement and competence. Any lower rate of the National Minimum Wage should be in place for long enough to enable real training to take place, but not indefinitely. The first few months in a job are in a sense a preparation phase, when the additional skills necessary to become a fully productive worker are developed. Training and close attention to the new employee's needs during this period can have a major impact on the wasteful early departures of new recruits. Reducing turnover will save significant associated costs in some of the low-paying sectors. **We recommend that a Development Rate for those aged 21 or over should be available for up to a maximum of six months for workers who are beginning a new job with a new employer and who are on accredited training.** We recognise that training may last longer than six months. Nevertheless, we believe that six months strikes a balance between the interests and productivity expectations of both employer and worker.

Ensuring *bona fide* Training

- 5.54 The Development Rate should not become a loophole which enables employers to exploit their staff. For workers aged 21 or over it should only be applied to those on accredited training. In oral evidence, the Confederation of British Industry (CBI) told us that the best way of ensuring that no abuse occurred was to link training with accreditation. Ideally, this would be training towards an NVQ/SVQ, but the CBI acknowledged that some companies run high-quality vocational courses which do not currently lead to any generally recognised qualification. The Trades Union Congress, in its oral evidence, argued

‘Ideally, the training rate should apply until the worker is able to meet the full requirements of the job. In practice, this period will clearly vary from job to job and for different individuals. However, in order to prevent abuse, to ensure consistency and to facilitate monitoring, CBI members recommend that the application of the training rate should be limited to a maximum period of six months for each new employee.’

Confederation of British Industry
Evidence

‘The Association does not favour any formal link to NVQs or Modern Apprenticeships at present, because the NVQ system is still being implemented across all industries in the UK and is still developing. This new concept is increasingly being adopted but will take time. We would hope, however, that the Low Pay Commission could revisit this at some point in the future, when it would be more practical for the National Minimum Wage to be linked to the achievement of N/SVQ qualifications. In the meantime, the measurement of training quality should be carried out against the occupational standards defined for the posts concerned.’

even more strongly that a training rate should be linked solely to NVQ accreditation. Other training might be acceptable, but only after full external validation.

- 5.55 We would prefer to use NVQ/SVQ accreditation as the training template and the sole basis for the Development Rate. But difficulties arise in using the NVQ/SVQ framework: not all employment is covered; and some employers, particularly smaller businesses, find them too paper-driven and bureaucratic. These problems are being addressed and evidence suggests that the situation is improving. Around half a million employees are studying for an NVQ/SVQ (LFS, Autumn 1997). Almost 450,000 people were awarded an NVQ/SVQ in 1996/97, an increase of 28 per cent over the previous year. Two-fifths of firms with 25 or more employees offer NVQ/SVQs to at least some of their employees (Department for Education and Employment and the Office for Standards in Education, 1998).

Scottish and Newcastle Retail made NVQs available to all their staff in May 1995. They found the framework bureaucratic, but spent a long time customising it to their needs, including working hard to establish effective communication with the awarding body to make the system work.

‘NVQs are not a panacea for all an organisation’s ills. But they are an excellent approach to training if you tailor them to your business, and develop and manage them in a systematic way.’

Kim Parish, Development and Training Director, Scottish and Newcastle Retail

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- 5.56 A Development Rate would be easier to understand and enforce by employers and workers if it were linked solely to NVQs/SVQs. From the evidence received and the information we collected during our visits, however, it was clear that such a proposal would ignore the realities of current practice. The definition of accredited training needs to be sufficiently flexible to include other legitimate training which is not formally associated with NVQs/SVQs.
- 5.57 Proposals being developed for the New Deal appear to offer a model of best practice in accrediting non-NVQ training. The main focus within the New Deal is on NVQs, but employers whose in-house training has no external accreditation are able to map that training against the

appropriate national occupational standard. If the internal training matches 50 per cent or more of the standards of the National Training Organisations or similar industry-wide body, then the training is deemed acceptable. The training will be assessed against the national standards by accredited NVQ assessors (all young people in the New Deal employer option will be registered as working towards an approved qualification) either in-house or from a local assessment centre. Each trainee will be supplied with a clear statement of how their in-house training fits with the appropriate national standards, and the relationship with NVQ units. Such training seems to us to be perfectly acceptable and should therefore be covered by the Development Rate.

- 5.58 But this process is time-consuming and is likely to be pursued only by larger organisations with developed in-house training. Smaller firms are more likely to choose to register their employees for NVQ/SVQ accreditation, or encourage them to pursue other relevant vocational training.
- 5.59 The Government sets out in Schedule 2(a) of the Further and Higher Education Act (1992) details of the vocational training and qualifications which have been approved in England by the Secretary of State for Education and Employment. Similar arrangements apply in Northern Ireland, Scotland and Wales. The updated list for the period 1 August 1998 to 31 July 1999 is supplied at Appendix 8. TECs, Local Enterprise Companies (LECs) and National Training Organisations could help small firms which want to pursue these options.
- 5.60 Whatever accredited training is pursued, we believe that a clear element of reciprocity should exist between employer and worker, with a written contract between the two parties defining the training that is to be provided. Such a contract would make clear what the training is designed to achieve and how this will be measured, where and when it is to take place, and how long it will last. A model for such a contract could be the agreement between employer, worker and TEC which forms the basis for the Modern Apprenticeship. We therefore propose that the accredited training for the Development Rate for those aged 21 or above should cover: NVQ/SVQs; accredited equivalents of NVQ/SVQs; and approved vocational training covered in England by Schedule 2(a) of the Further and Higher Education Act

‘Training should be appropriate and meaningful but not confined, for example, to NVQs. Many retail employers provide excellent in-house training schemes, whilst NVQs are not always relevant to the needs of individual businesses, particularly Small and Medium Sized Enterprises. Restricting acceptable training to a nationally accredited qualification would force large numbers of employers artificially to distort or indeed to reduce their training programmes. Those who offer credible tailor-made quality training should not be disadvantaged by unnecessary constraints.’

British Retail Consortium Evidence

(1992) and its equivalents for the rest of the UK. In all cases there should be a written contract between the employer and employee clearly defining the training proposed.

Rate Compliance

- 5.61 To a large extent, our recommendations for a Development Rate should be self-enforcing. Age-related criteria are straightforward, and for those aged 21 or over the new entrant and employer should agree, through a written contract, the accredited training to be pursued if they wish to follow this option. The Development Rate can apply for up to six months from the start of employment. To ensure that no wide-scale misinterpretation or abuse of the recommendations occurs, however, we suggest that there should be some simple mechanism through which the correct use of the Development Rate could be verified. TECs, Chambers of Commerce, LECs and Business Links are all well placed to assist. In its evidence, the TEC National Council suggested that TECs, Chambers and Business Links could promote locally a telephone number for employers seeking advice on appropriate training opportunities. TECs and Chambers could thus verify that the training being offered to the young person is *bona fide*. National Training Organisations could play a similar role.

Conclusion

- 5.62 Our recommendations for a Development Rate reflect the current labour market in the UK. We are keen to encourage employers and workers to invest in training. While we would wish to link the Development Rate for all workers strictly to the NVQ/SVQ framework, we cannot do so currently. But this must be the goal in the coming years.
- 5.63 There have been moves recently to improve the training of young people in work. Modern Apprenticeships continue to increase in popularity among both employers and employees and are receiving additional support from government. Increasing numbers are attaining NVQs/SVQs.
- 5.64 The Government's Investing in Young People strategy should be a major step forward in changing youth culture. If, as we hope, the Right to Study proves successful, then it may be possible to extend this right to all those in employment up to the age of 21. As government initiatives on training and development increasingly provide a

coherent strategy for 18–20 year olds, then there should be an opportunity to improve the training and skills record of young people. The impact of the New Deal will mean that the focus can increasingly be on young people in work. But it would be a mistake to try to anticipate the achievement of these policy initiatives. Our recommendations for young people reflect our concerns about the particular problems of youth unemployment; our recommendations in respect of accredited training reflect our desire to support the development of a highly-skilled workforce.

- 5.65 Our expectation is that development opportunities will increase in number and scope, to the mutual benefit of both workers and employers. More workers, particularly young workers, will secure better employment and higher wages as they improve their skills. The benefits to employers will come through increased productivity and better quality output. Clearly, this area will need to be the subject of detailed evaluation of the impact of introducing the National Minimum Wage. We look forward to working closely with those bodies responsible for the continuing rise in skill levels among the UK workforce, particularly for young workers. We will want to compare take-up of the Development Rate with the experience of the United States and its induction rate. We will also be looking not just for examples of proper use of the Development Rate, but for examples of employers providing accredited training while also paying at least the full rate of the National Minimum Wage. We look forward to the time when the Development Rate of the National Minimum Wage is solely dedicated to clearly identifiable and accredited training, fully supportive of a high-wage, high-skill economy.

6 Choosing the Rate

A recommendation on the initial rate of the National Minimum Wage must balance the aim to address low pay with the need to ensure that the level is manageable for business and the economy. An assessment of the latter consideration was based on six economic issues in particular: pay differentials, the costs to business, competitiveness, prices, employment and public sector finances. Judgments on these factors were guided by studies on the effects of minimum wage systems, both in the UK and abroad; analysis of official data sources on low pay and their movements over time; and an extensive consultation process. We advise that the appropriate rate for the National Minimum Wage should be £3.70 per hour in June 2000.

Consistent with introducing the wage at an earlier date and our aim to proceed with prudence, however, we recommend that the initial rate of £3.60 per hour should be introduced in April 1999. We recommend that an initial Development Rate of £3.20 per hour should be introduced in April 1999 for workers aged 18–20 and for those on accredited training programmes. Our advice is that the appropriate Development Rate in June 2000 should be £3.30 per hour.

- 6.1 In a society which now has considerable inequalities in pay, a National Minimum Wage should secure greater equity in the workplace and provide for a more inclusive society. While setting a higher National Minimum Wage could make greater inroads into pay inequality, we are conscious that we will not help low-paid workers by recommending a rate which is so high that their jobs are put at risk, or they have to pay a lot more for everyday goods and services.
- 6.2 Where to set the initial National Minimum Wage rate without risking damage to the economy is a matter of judgment. Such a new policy will take the labour market into largely uncharted waters and no one can predict its precise effect. Many jobs are paid around the rates we considered and we are conscious that the impact on the economy is sensitive to the level set. We are also aware that we have been asked to make recommendations at a time when particular changes are taking place in the economy: notably, the distribution of pay is changing and the tax and benefits system is being reformed. These and other factors will affect the impact of our recommendations.

- 6.3 We have studied the labour market and consulted widely to ensure that what we recommend is manageable for a wide range of business interests. We are aware that businesses differ greatly and that their reactions to the National Minimum Wage will be diverse. This was confirmed in evidence by the British Chambers of Commerce which stated that ‘it is vital to appreciate that there will be no one effect. The reality will be that the impact will be absorbed by businesses through a combination of measures’. We therefore examined a range of likely responses within the labour market and considered the impact of minimum rates on six issues in particular: pay differentials, business costs, competitiveness, prices, employment and public sector finances. As a context for examining these issues, however, we first consider the incidence of low pay, and the rates which apply in other minimum wage systems.

Context

- 6.4 A basic issue we had to address in choosing the rate is its likely coverage (the number of low-paid workers having a legal entitlement to higher pay) and toughness (the minimum rate as a proportion of average earnings), and how these indicators compare with those in both the former UK Wages Councils and international minimum wage systems. Making these comparisons is not straightforward as there are uncertainties in the estimates of low pay from official data sources, both in the UK and internationally.

Coverage

- 6.5 Assessing the incidence of low pay is complicated by substantial problems with the estimates from official data sources. A review of the data suggested that a combination of the employer-based New Earnings Survey (NES) and the household-based Labour Force Survey (LFS) would be best for our purposes (see Appendix 2). Taken alone each has its limitations. The NES omits many part-time employees who fall below the Pay As You Earn (PAYE) threshold, and the collection methods of the LFS can lead to biases in earnings and hours. These limitations give rise to a substantial discrepancy in their estimates of low pay.
- 6.6 In view of these disparities, we worked with the Office for National Statistics (ONS) to evaluate biases in the surveys, and to examine how they might be managed. The broad

conclusion of ONS was that the true extent of low pay lies between the LFS and NES estimates, with the LFS providing a more accurate guide among the very low paid. ONS provided adjusted estimates of the incidence of low pay giving a central estimate within ranges. These were published in the May 1998 issue of *Labour Market Trends* (Wilkinson, 1998) and are summarised in Appendix 2. We take the ONS central estimate as currently providing the best estimate of low pay. But we are conscious that there is still a great deal of uncertainty about the data and a particular need to improve the sampling of the low paid in the NES.

- 6.7 Table 6.1 presents the ONS central estimates of the number of employees below various hourly rates as a proportion of total employees at Spring 1997, the latest available NES. Separate estimates are given for those aged 18–20 and 21 or over, reflecting our recommendation that different minimum rates should be set for these age groups.
- 6.8 Table 6.1 presents aggregate figures, but given that our terms of reference require us to recommend a single national rate, we are particularly concerned to ensure that what we recommend is manageable across different low-paying sectors throughout the UK. Because of its large sample size, the NES provides the best basis for detailed analyses, despite bias because of under-sampling of some low-paid employees. The ONS central estimates methodology cannot yet be applied for the more detailed analyses given later in this chapter.

Table 6.1

Number of Employees Below Various Earnings Thresholds as a Proportion of Total Employees in Age Group at Spring 1997						
Hourly earnings (£)	Employees covered by age					
	18–20		21 or over		18 or over	
	000s	%	000s	%	000s	%
2.50	120	11	555	3	675	3
2.60	145	13	640	3	785	4
2.70	170	15	705	3	875	4
2.80	190	17	810	4	1,000	4
2.90	215	19	895	4	1,110	5
3.00	235	21	980	5	1,215	5
3.10	275	25	1,215	6	1,495	7
3.20	315	29	1,410	7	1,725	8
3.30	345	31	1,620	8	1,965	9
3.40	380	34	1,815	9	2,190	10
3.50	420	38	2,050	10	2,470	11
3.60	460	42	2,370	11	2,830	13
3.70	495	45	2,580	12	3,080	14
3.80	540	49	2,900	14	3,440	15
3.90	565	51	3,180	15	3,745	17
4.00	605	55	3,455	16	4,060	18
4.25	705	64	4,235	20	4,960	22
4.50	770	70	5,010	24	5,785	26

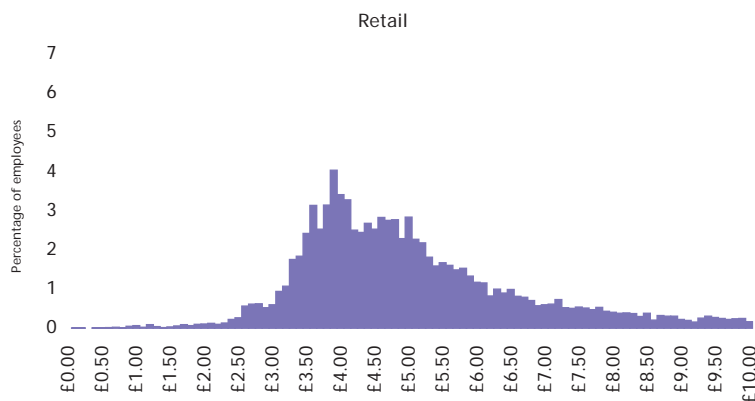
Source: ONS central estimates based on Spring 1997 data

Note: See Appendix 2 for details of the methodology.

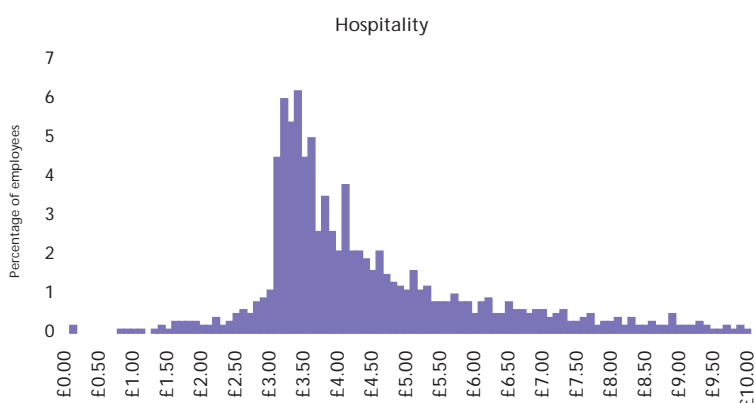
6.9 We examined the earnings distributions in the business sectors that will be most affected by the National Minimum Wage. Figure 6.1 gives the distribution of earnings in retail and hospitality, which account for one-third of all employees earning below £3.50 per hour (April 1997). It demonstrates that pay at the lower levels is particularly concentrated between £3.50 and £4.25 per hour in retailing and between £3.00 and £3.75 per hour in hospitality. The earnings distributions in other low-paying industries generally show a high proportion of employees earning between £3.00 and £4.50 per hour (see Figure A2.1 in Appendix 2).

Figure 6.1

Distribution of Hourly Earnings in Retail and Hospitality



Source: NES, April 1997



Source: NES, April 1997

6.10 Our terms of reference require us to make a recommendation for a single rate across all parts of the UK. Some of those presenting evidence suggested that since pay levels vary across the UK, there should be regional rates for the National Minimum Wage. Some argued, in particular, that owing to its higher incidence of low pay, Northern Ireland might merit a separate rate. Figure 3.14 shows that although differences exist in the incidence of low pay between regions, the greatest disparity arises in comparing London and the South East with the rest of the UK. The incidence of low pay in Northern Ireland, for example, is similar to that in other lower-paying regions. We therefore concluded that in making our recommendations a strong case did not exist for giving any single region a particular weight.

- 6.11 The data in this chapter refer throughout to total earnings, including allowances and premia for non-standard work or hours. We recommend that such allowances and premia should be excluded from the calculation of earnings that count towards the National Minimum Wage (see Chapter 4). It is not possible to be precise about how far total earnings data may understate coverage under our proposed definition, which in any case depends on whether employers consolidate additional pay components into basic pay. But ONS has suggested that the impact is relatively slight. Furthermore, the coverage of our recommendation is lowered by the Development Rate. We therefore conclude that total earnings is a reasonable approximate guide to the impact of our recommendations on the low paid. Further analyses of these factors are given in Appendix 2.
- 6.12 An important issue we had to consider was how to use the latest data as a guide to the labour market when the National Minimum Wage is introduced. The problem is that the coverage of a constant minimum rate declines over time as earnings among the low paid gradually increase. The LFS indicates that 2.58 million employees aged 18 or over were paid below £3.50 per hour in Spring 1997, for example, compared with 2.92 million in Spring 1995 and 3.25 million in Spring 1994. The growth in earnings over time is important, since we are recommending that the National Minimum Wage is introduced in 1999, but we must base our assessment on data collected in Spring and Autumn 1997.
- 6.13 Correcting for declining coverage of a constant minimum rate over time is not straightforward. There is a range of expectations among forecasters about future movements in average earnings; in addition, low pay tends to move rather differently from average pay (see Appendix 3). While generally increasing at a slower rate, the earnings of the low paid have recently risen in line with the average. We are in no position to make forecasts, but we have been guided by the fact that past movements in low pay have tended to lie between increases in inflation and average earnings. A more cautious assessment of Spring 1997 data using a combination of the actual headline Retail Prices Index (RPI) and the Government's underlying inflation target would mean that a minimum rate of £3.50 per hour in Spring 1997 could be expected to have a similar impact to a minimum rate of around £3.70 per hour in

Spring 1999. Alternatively, an adjustment based on recent movements in the Average Earnings Index (AEI) would suggest a figure of around £3.80 per hour in Spring 1999.

Wages Council Rates

- 6.14 Wages Councils offer recent experience of the operation of minimum wage rates in the UK. Table 6.2 shows the last minimum hourly rates set by the largest seven councils, which in 1993 accounted for 97 per cent of Wages Council coverage. At abolition, the Wages Councils covered just over 2.5 million employees. Among the big seven, Retail Non-Food, the largest Council, set a minimum rate of £3.155 per hour at abolition, while lower hourly rates applied to Clothing Manufacture (£2.7166) and Hairdressing (£2.88). The table also shows the equivalent Wages Council rates uprated to current values by various measures. Employment weighted average hourly rates correspond to £3.46 if uprated to April 1997 by lowest decile earnings; to £3.51 if uprated to April 1997 by median earnings; and to £3.72 if uprated to March 1998 by the AEI.

Table 6.2

Wages Council Rates					
Wages Councils (GB)	Employees covered	Rates at April 1993 (£ per hour)	Uprated by lowest decile earnings to April 1997 (£ per hour)	Uprated by median earnings to April 1997 (£ per hour)	Uprated by the AEI to March 1998 (£ per hour)
Clothing Manufacture	118,000	2.7166	3.09	3.14	3.32
Hairdressing	69,000	2.88	3.27	3.32	3.52
Licensed Non-Residential	538,000	3.01	3.42	3.47	3.68
Licensed Residential & Licensed Restaurant	417,000	2.92	3.32	3.37	3.57
Retail Food	490,000	3.175	3.61	3.66	3.88
Retail Non-Food	736,000	3.155	3.59	3.64	3.85
Unlicensed Place of Refreshment	110,000	2.92	3.32	3.37	3.57
Employment Weighted Average		3.04	3.46	3.51	3.72

Note: Employee coverage taken from IDS Report 649, September 1993. April 1997 figures are uprated by the earnings of all full-time employees in the April 1997 NES. The employment weighted average is calculated from figures for all Wages Councils.

6.15 The Wages Council rates at abolition provide an example of statutory minimum rates in the UK which appear to have had no significant damaging impact on the labour market. But we are conscious that parallels with that system are not complete and should be applied with caution: the National Minimum Wage will apply to all industries, rather than just the Wages Council trades, and pay in some sectors not covered by Councils was lower; the Wages Councils did not cover under-21 year olds at abolition; and the level of compliance with Wages Council rates was incomplete. In addition, the earnings distribution has widened since the Wages Councils were abolished in 1993. Hence a National Minimum Wage set at uprated Wages Council rates would have a broader impact than the Wages Council system at abolition. On the other hand, prior to abolition Wages Council rates had declined relative to average earnings. Uprating mid-1980s Council rates to April 1997 by median earnings, for example, gives an employment weighted average of £3.85 per hour, compared with £3.51 per hour uprated from 1993.

International Minimum Rates

6.16 It is not straightforward to compare minimum rates across countries. Comparisons using two commonly used measures are given in Table 6.3. Cash amounts at purchasing power parity (PPP) show that minimum rates vary between £1.65 per hour in Portugal and £4.56 per hour in Belgium. But they are an unsatisfactory guide for assessing the impact on the labour market, given the variations in average earnings across countries. We also considered minimum rates as a proportion of median earnings. These ratios vary widely, between around 30 per cent and just under 60 per cent of full-time median pay, which in round terms equates to between £2.30 and £4.60 per hour in the UK in April 1997 (NES). This is also an imperfect comparative measure as differences in earnings distributions mean that the same ratio may have a different effect on the labour market in different countries. We also considered comparative data on the proportion of workers earning around the minimum rate. But the data are of limited use as, among other considerations, they are based on different types of survey in different countries. A description of the comparative statistics and their limitations is given in Appendix 6.

Table 6.3

International Minimum Wage Rates		
	Minimum wages per hour at PPP, at December 1997 (£)	Minimum wages as a percentage of full-time median earnings, mid 1997 (%)
Belgium	4.56	50
Canada	3.80	40
France	3.97	57
Japan	2.41	31
Netherlands	4.27	49
New Zealand	3.18	46
Portugal	1.65	–
Spain	2.10	32
United States	3.67	38

Source: OECD, 1998b

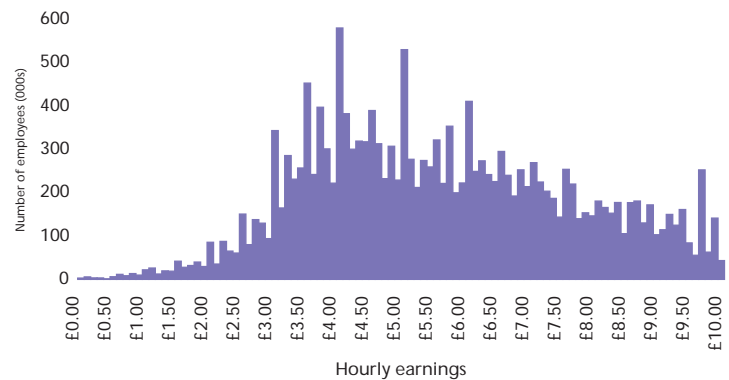
Note: The data for median earnings were collected in different periods and have been extrapolated to mid-1997.

Pay Differentials

- 6.17 As well as improving pay for those below its level, the National Minimum Wage may prompt pay rises for workers whose rates are already above it. This will occur if higher-paid workers claim, and their employers agree, extra pay rises to reassert present pay differentials over the lower paid. How far pay differentials may be reasserted is a key issue in our assessment. Some argue that the risk of wage restoration may increase even with modest rises in the minimum level because of the large number of low-paid workers. Typically, between 200,000 and 400,000 employees are in each ten pence pay band between £3.00 and £4.00 per hour (see Table 6.1 and Figure 6.2). The risks are probably higher in sectors such as hospitality where pay is more concentrated around lower levels (see Figure 6.1).

Figure 6.2

Distribution of Earnings



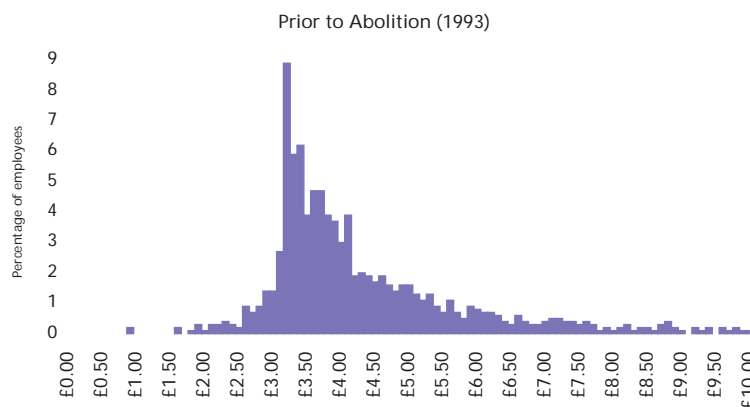
Source: LFS, Autumn 1997

6.18 In view of these concerns, we went to considerable lengths to investigate the likely consequences for pay differentials. We did so using a variety of approaches:

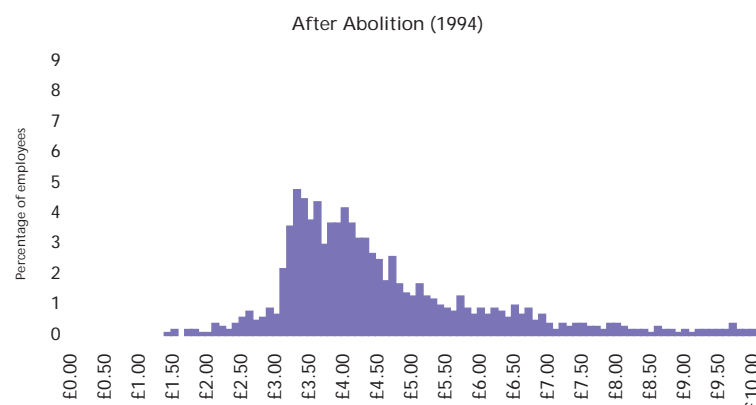
- We looked at international evidence on the extent of restoration when statutory minimum rates are revised.
- We looked at the experience of the operation of the Wages Councils and of their abolition.
- We commissioned a study by Incomes Data Services (IDS) of a large number of recent pay settlements where awards to low-paid employees were proportionally larger than those to higher-paid employees.
- We investigated the implications of current knowledge of bargaining behaviour, bargaining structures and contemporary management practices.
- We considered the written evidence that employers, workers and their representatives submitted to us on this issue.
- Perhaps most tellingly, during the course of our visits we routinely asked large numbers of practising managers and local trade union representatives throughout low-paying industries about the likely consequences of a National Minimum Wage for the internal pay structure of their organisations.

- 6.19 International evidence, notably from the USA, shows that increases in minimum wage levels result in substantial compression of pay differentials. That wage differentials are not automatically reasserted is indicated by empirical work showing a ‘spike’ in the earnings distribution, that is a high proportion of workers earning the minimum wage (Card and Krueger, 1995; DiNardo et al., 1996; Teulings, 1998). A recent review of the literature by the Organisation for Economic Co-operation and Development (OECD, 1998b) concluded that ‘almost all studies find that minimum wages do lead to a compression of the earnings distribution’. This conclusion is also supported by empirical work showing that countries with a high minimum wage relative to median earnings tend to have a lower dispersion of earnings (see Figure A6.4 in Appendix 6).
- 6.20 In the UK, the operation of the Wages Councils provides at least two lessons. First, econometric research at the Centre for Economic Performance concluded that during their operation the minimum rates of the Wages Councils did appear to compress the distribution of earnings significantly, and did so more strongly for women covered by minimum wages than for men (Dickens et al., 1997). Second, the abolition of the Wages Councils was accompanied by a fall in the concentration of new jobs paying around the old minimum rates (see Figure 6.3). This also suggests that pay structures in these industries are not rigid and that pressures for the restoration of internal differentials are likely to be partial.

Figure 6.3
Distribution of Hourly Earnings for New Jobs in Retail



Source: NES



Source: NES

Note: At abolition the minimum rates in the Retail Food and Retail Non-Food Wages Councils corresponded to £3.175 and £3.155 per hour respectively. Data are based on hourly rates for jobs held for under a year.

6.21 The IDS study we commissioned looked at 120 recent agreements in which lower-paid employees gained greater pay awards than higher-paid colleagues. Care should be taken in interpreting these results as the sample was drawn from IDS subscribers, who tend to be employers in larger enterprises. Nevertheless, the study is helpful. It reported what happened, for example, following the abolition of rigid skill differentials in the engineering industry with the ending of its national agreement in 1989: traditional notions of differentials dissolved as multi-skilling, harmonisation, and flat-rate increases were introduced (see Appendix 9 for a summary of the IDS report).

- 6.22 Changes in bargaining structure have also been important. The IDS study was concerned with what has been going on within organisations. But equally significant developments have been occurring across them. The coverage of trade unions and of collective bargaining has diminished. Three-quarters of those earning below £5.00 per hour are now in workplaces where trade unions are not recognised.
- 6.23 Just as important, where trade unions are bargaining over pay, they are doing so on the basis of enterprise-based bargaining units. Hence the most influential bases of comparison for bargaining purposes are the pay of other workers within the enterprise. For the majority of enterprises there will be no employees likely to be directly touched by the National Minimum Wage, and therefore the question of the restoration of differentials should not be a major issue. This message was echoed in UNISON's evidence, which pointed out that 'in general, a minimum wage is unlikely to jack up differentials – in part because low-paid workers are often separated by contract or bargaining unit from others'.
- 6.24 Written evidence from MSF, a union which covers a range of skilled and professional workers across the manufacturing and service sectors, also supports the conclusion that demands for pay restoration among skilled workers will be limited. It stated that 'where MSF members work alongside others whose pay would be raised by the introduction of a National Minimum Wage, it is unlikely that MSF members will be looking to maintain differentials'. In short, we conclude that union pressure to restore pay differentials is likely to be limited and localised.
- 6.25 A final issue is how far employers, for their own managerial reasons, will seek to restore pay differentials in order to reward responsibility, skill, experience, or other factors. Meetings with practising managers in low-paying firms have been of great value. We asked them how they would respond to different levels of the National Minimum Wage within their own firm. In some low-paying sectors, such as cleaning and security, we were told that pressure to restore pay differentials would probably be limited to direct supervisors, and those workers who are paid a small enhancement for extra responsibilities. Other sectors may have more complex structures. Hairdressers within a salon, for example, may be paid in closely spaced bands depending

'We concluded that the assumption that skilled unions will always seek to restore differentials in full was doubtful in relation to a minimum wage increase.'

Incomes Data Services (1998a)

‘The majority of pub employees are paid within a narrow wage band from £3 to £4 per hour and this scale of rate is carefully constructed to provide incentive. The industry would not, therefore, wish to lose such differentiation.’

Brewers and Licensed Retailers
Association Evidence

on qualifications and experience. But in general the evidence confirmed that pressure to retain differential payments would be limited to staff working closely with those whose pay is directly affected by the National Minimum Wage.

- 6.26 There have been many changes in recent years to the structure of payment and reward systems within firms. As the IDS report and our discussions with employers indicate, there has been a trend among some employers to de-layer pay structures. In addition, payment systems have become far more diverse, individualised and varied. While we know there is diversity across the sectors, we judge that these trends generally dampen any pressures to restore wage differentials.
- 6.27 We explored the Single Status Agreement introduced by local authorities in 1997 as one example of pay restructuring. This agreement combined the salary structures of non-manual and manual workers, involving higher pay rises for lower-paid workers and abolition of the lowest pay grades. Our discussions with local authority officials from several councils confirmed that these changes had not led to pressure to restore differentials, and that the emphasis on differential payments had reduced over recent years. In a meeting with Kingston upon Hull City Council, for example, we were told that a simpler, flatter pay scale was now part of the culture.
- 6.28 We conclude that if the National Minimum Wage is introduced at a sensible level, the pressure to restore pay differentials following its introduction will be limited and localised. We cannot be precise, but our best estimate is that the effects would generally peter out in the bottom half of the earnings distribution.

Business Costs

- 6.29 We found much support from businesses in all sectors and of all sizes for the principle of a National Minimum Wage. But we recognise that it would not help employers or consumers if we set a rate which forces significant price rises. This would undermine competitiveness and reduce overall demand for goods and services. We have therefore sought to recommend a rate with a view to promoting greater equity for workers but which sound businesses can afford to pay.

6.30 Our work makes clear that the success of businesses depends on a wide range of critical factors and that the National Minimum Wage is only one of many challenges which firms face. Where the National Minimum Wage increases costs it will be moderated by a range of adjustments. Some companies have suggested that they will make organisational changes, for example, accompanied by alterations in non-wage costs. Others may seek to raise productivity.

6.31 To help us assess what business could manage, we consulted employers in enterprises of all sizes and across all sectors of the economy. We studied the impact of different levels of the National Minimum Wage on the labour costs of business. And we investigated market conditions in key low-paying sectors, using a range of sources, including research that we commissioned.

Wage Costs

6.32 A sensible National Minimum Wage with limited restoration of pay differentials should lead to only a modest rise in the economy’s total wage bill. Figure 6.4 shows the percentage increase in the total wage bill when raising the earnings of the low paid to various levels of National Minimum Wage, both for those aged 21 or over and for those aged 18 or over. This indicates a ‘direct’ first-round effect on wages, ignoring any stimulus to labour productivity or restoration of pay differentials caused by the National Minimum Wage.

Figure 6.4

Impact of a National Minimum Wage on the Total Wage Bill



Source: NES, April 1997; LFS, Spring 1997

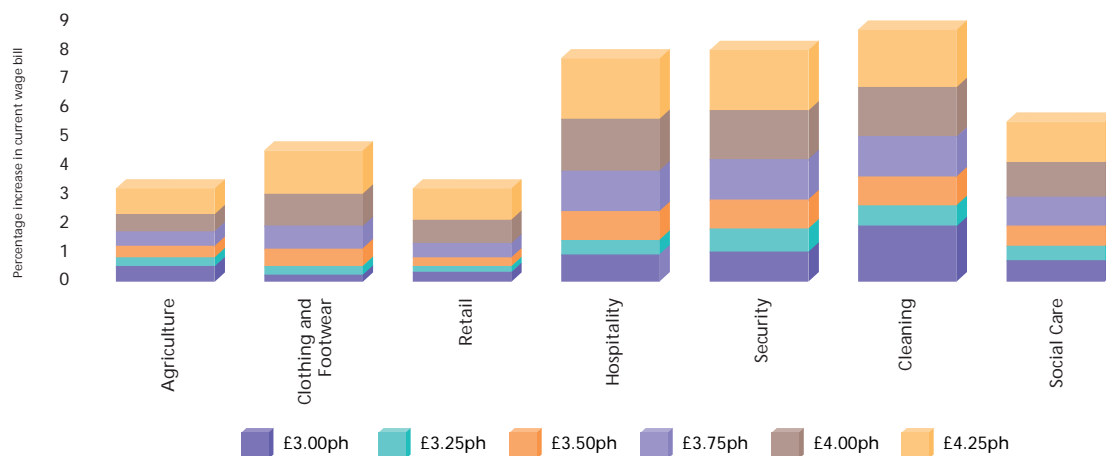
As with coverage, there is a discrepancy between NES and LFS estimates, and here ONS advise that the true impact on the wage bill is likely to be closer to the NES estimate, with the mid-point between the two surveys providing a rough working guide (see Appendix 2).

6.33 The direct impact of a minimum in the region of £3.25 or £3.50 per hour in Spring 1997 is modest on both surveys, adding between 0.2–0.3 per cent (NES) and 0.8–1.1 per cent (LFS) to the total wage bill for all those aged 18 or over. The direct impact on the wage bill begins to rise more rapidly, however, as the minimum rate increases much above £3.50 per hour (Spring 1997), because of the large numbers of employees paid around this level. Both surveys indicate that a minimum rate of £4.25 compared with £3.50 per hour in 1997 would more than double the direct wage cost to businesses.

6.34 We took a particular interest in the impact of various minimum rates on the wage bill of key low-paying sectors. Figure 6.5 shows that the largest increases in the wage bill will be in hospitality, cleaning, and security. In hospitality and security, a minimum rate set at £4.00 rather than £3.50 per hour more than doubles the rise in their wage bills. The cost to the wage bill also varies within these sectors. Within hospitality, for example, increases in the wage bill are higher in bars and restaurants than in other sub-sectors.

Figure 6.5

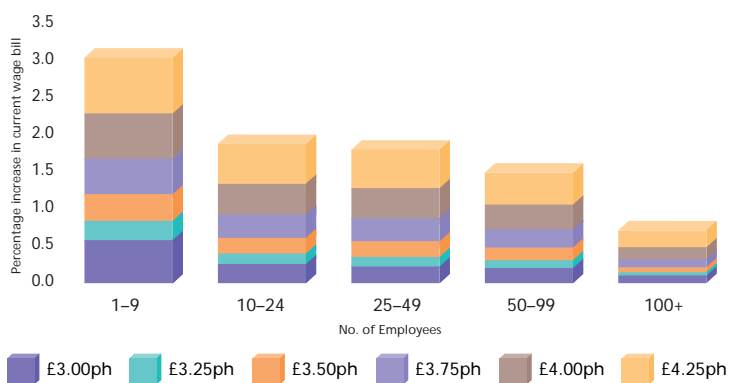
Impact of a National Minimum Wage on the Total Wage Bill of Low-paying Industries



6.35 The impact on business costs also varies by firm size. Figure 6.6 shows that the ‘direct’ wage costs arising from the National Minimum Wage are more substantial in smaller enterprises, reflecting a greater prevalence of low pay. In particular, ‘direct’ wage costs at a rate of £3.50 per hour are six times higher in enterprises of 1–9 employees than in those with 100 or more employees. The ratio is greater the lower the rate, which is related to the disproportionate number of small firms in low-paying sectors.

Figure 6.6

Impact of a National Minimum Wage on the Wage Bill by Size of Enterprise



Source: NES, April 1997

6.36 The above figures are underestimates, because they do not take account of knock-on effects through wage restoration, and since they are NES-based and omit some employees below the PAYE threshold. Nevertheless, we believe that wage restoration is likely to be small, and any growth in pay between April 1997 (the latest NES data available) and the date of introduction of the National Minimum Wage will reduce the impact on the wage bill. The data also do not take into account any organisational changes by which firms may lessen the costs of adjustment.

6.37 Labour turnover is typically high in many low-paying sectors (35 per cent per year in hotels and leisure, for example), and if higher pay reduces labour turnover, then any increase in business costs will be reduced. A recent survey by the Institute of Personnel and Development (IPD) estimated that the average cost of turnover among the unskilled is around £735 per worker. So reducing labour turnover could have a significant effect on business costs (IPD, 1997a). This is discussed in more detail in Appendix 10.

Sectoral Evidence

- 6.38 Most employers are likely to be more concerned about the impact of a National Minimum Wage on their total costs, rather than their wage bill in isolation. Some businesses pay low rates in order to keep the prices of their goods and services competitive. Those businesses where labour costs are a high proportion of total costs have particular concerns about the National Minimum Wage, as do those which feel disadvantaged compared with competitors. Hairdressing, security, cleaning and care sectors are particularly labour intensive. And in many sectors, smaller businesses, which may not benefit from economies of scale, have greater concerns about absorbing increased costs.
- 6.39 The Daycare Trust, which represents providers of all types of childcare, told us that ‘staff costs make up around 80 per cent of the running costs of private and voluntary sector nurseries’. Sectoral surveys submitted in evidence suggested that typical pay rates in the childcare sector were among the lowest of any sector we considered, with examples of staff being paid £2 per hour not unusual. For residential and nursing home owners, who rely heavily on care assistants and ancillary workers, staff costs ranged from 50–75 per cent of total costs, with the smallest private homes having the highest proportion of labour costs. In cleaning and support services wages currently account for some 70 per cent of contract value.
- 6.40 The National Hairdressers’ Federation drew attention to the concern of many smaller businesses about Value Added Tax (VAT). These tend to restrict turnover below the VAT threshold to avoid the tax and remain competitive. If a National Minimum Wage caused them to exceed the VAT threshold, they felt that it would provide added stimulus to competitors in the informal economy.
- 6.41 Within these sectors, and more widely, small firms tend to pay lower rates than their larger competitors and have greater concerns about additional costs. We made great efforts to canvass their opinion and held many meetings with employers in small firms and their representatives. There were differences between such firms, but we recognise that many do not have the same margins or management resources as larger competitors. We were sensitive to this in making our recommendations.

We met a group of employers from small businesses organised by the North East Chamber of Commerce in conjunction with the Federation of Small Businesses. They came from a diverse range of industries, including a printing firm, a nursery school, a wool shop, a heating insulation company, a company relocation service, a launderette, a hairdressing business, a residential home and a music store.

Most of them were experiencing problems: competition from out-of-town traders; high overheads on premises and staff; and customers' expectations that although they might be more friendly and convenient, they should match the price and quality of their larger trading competitors. Wage rates were £3.50 per hour for part-timers in out-of-city shops, to £3.95 for more specialist retailing employees in the centre of Newcastle.

Low Pay Commission Visit to Newcastle 1998

- 6.42 In conclusion, the National Minimum Wage will clearly increase the costs of companies which are paying substantial numbers of staff below the recommended level. Increases in business costs will be most significant in low-paying, labour-intensive sectors, such as security and cleaning, in which staff costs are a high proportion of total costs. They will also tend to be greater in small firms, particularly those employing fewer than 10 employees.

Competitiveness, Productivity and Performance

- 6.43 One way to secure a sustainable reduction in earnings inequality without damaging economic performance is to improve the productivity of those working in low-paying industries. The processes of adjustment to the National Minimum Wage are complex and the links with economic performance are far from clear. But our research suggests that in most sectors there is potential either to improve productivity or to move into higher value-added products and services.
- 6.44 Many employers currently pursuing a high productivity strategy thought they were being undermined by competitors' reliance on low-wage employment. The British Security Industry Association has set a mandatory minimum wage for its members of £3.75 per hour for contracts within the M25 in London and £2.75 elsewhere.

‘The long-term well-being of workers in the lower rung of the earnings distribution depends ultimately on increasing their productivity.’

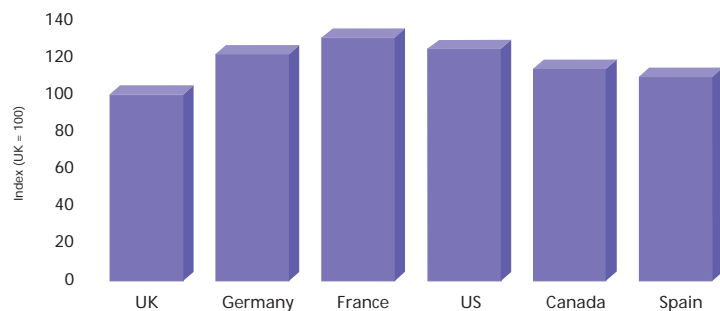
Freeman (1996b)

But they told us that non-member companies, which hold some 40 per cent of security contracts, do not necessarily follow these rates. We have heard of rates as low as £1.80 per hour for security guards in some areas.

- 6.45 Official data show that the UK lags behind overseas competitors in productivity. Figure 6.7 shows that output per hour in the UK is well below that in the USA, Germany and France. In the service sector, where the impact of the National Minimum Wage is likely to be greatest, comparisons are more difficult. But research suggests that a productivity gap exists; it is large in hotels and catering compared with the USA and France, for example, and in business services compared with Germany (O'Mahony et al., 1996).

Figure 6.7

Output per Hour Worked in 1996



Source: DTI calculations from ONS, OECD and Eurostat data

- 6.46 A moderate National Minimum Wage has the potential to spur improved productivity and economic performance. Whether it will, however, depends on a range of critical factors. For example, Keep and Mayhew (1998) emphasised the role in economic performance of product market strategies that promote competition based on quality; a market that will pay a premium for higher value-added products; work organisation and job design which ensure workers are effectively deployed; and employee relations systems which foster commitment. How a rise in labour costs interacts with these critical factors will determine the impact of the National Minimum Wage on performance.

- 6.47 In forming our views we were greatly influenced by our discussions with the businesses likely to be directly affected. The majority of employers we spoke to were confident that the way they train, equip, and motivate their employees is sufficient to ensure adequate productivity levels to pay a sensible National Minimum Wage. The minority for whom there could be problems were aware that their response to it should in theory be one of raising worker productivity through improved working methods and training. But they may lack the resources, managerial and financial, to do so rapidly. They argued for a relatively low initial rate to permit them time to adjust their competitive strategies.
- 6.48 We understand that businesses need time to adjust. For many firms a sharp rise in labour costs is more likely to be damaging than stimulating, unless it can be anticipated and managed. It is clear from our consultations that the challenge to improve efficiency varies by sector and establishment. Employers in labour-intensive sectors, such as business services and social care, suggested that extra efficiencies or movement to higher value-added may be harder to secure. They are constrained because many of their customers, such as those in the public sector, seek to keep costs to a minimum because of pressures on funding. Staffing levels are regulated for care for the elderly or children. Hence these sectors have less scope to reduce staffing ratios by increasing the productivity of their staff.
- 6.49 Smaller businesses may face greater constraints in adopting new technology. In some cases this may be because they do not have the capital to invest in upgraded equipment; in others, their smaller volumes mean that mechanisation would not be fully exploited. The Biscuit, Cake, Chocolate and Confectionery Alliance told us that ‘smaller organisations produce more specialised products for which demand is fairly low and as a consequence it is harder to mechanise the process’.
- 6.50 The evidence we received, however, suggested a range of circumstances where efficiency, service or value-added could potentially be improved. Thus representatives of the security industry suggested to us that there is potential to make use of modern technology, such as surveillance equipment, to complement the use of security guards. Another example is retailing where it has been stated that

‘Because staffing levels are set with the requirement for a minimum number to be on duty at any given time it is impossible to operate better productivity with a view to securing a better return on staff.’

Registered Nursing Homes Association
Evidence

‘Historical organisational cultures are still prevalent in the [hospitality] industry and remain process focused rather than customer driven. There is a need to adapt to external and changing business culture through training and organisational re-engineering.... The view that training is a cost rather than an investment must be overcome. In addition, more attention should be paid to training older people to reflect the changing composition of the customer base.’

Henley Centre (1996)

‘technology is the new battleground’ (Hollinger, 1998). And there has been a trend for textile manufacturers to move to higher quality niche products.

We met the Chief Executive of a knitwear company in the Midlands employing 137 people. The company faces fierce competition from overseas markets, with imports coming from Hong Kong, Mauritius and increasingly Europe as a reaction to the exchange rate. The company’s main customer sources 65 per cent of its garments from Hong Kong and Europe and only 15–20 per cent from the UK. It is impossible to compete with the foreign imports on cost.

But the company has invested heavily in the most modern machines to minimise waste and improve productivity, and has become dependent on the design and quality of its products and customer service to remain in business. Despite this, its price flexibility is very limited, as retailers maintain tight control. Indeed, the Chief Executive showed us an example of a jumper which had not increased in price for ten years.

Low Pay Commission Visit to Leicester

- 6.51 Sectoral evidence also highlighted the need for better training and investment. Evidence received by the Henley Centre (1996) commenting on the hospitality industry, indicated that the industry could benefit by investing more in its workforce.
- 6.52 To conclude, the National Minimum Wage will potentially provide a spur to increased productivity and could encourage businesses to make better use of their workforce. The way in which they will adapt to the National Minimum Wage is not, however, straightforward. Our aim has been to make recommendations which will make a difference to the low paid without putting jobs or prices at longer-term risk, and we believe the stimulus to efficiency could in time enhance performance as well as secure a sustainable improvement for the lowest paid. We also believe that it is important to be prudent about the initial rate of the National Minimum Wage, so that firms have time to adapt their practices.

Inflation

- 6.53 There has been little empirical work on the impact of minimum wages on inflation. In practice these effects will depend on a range of factors, such as the increase in the wage bill, conditions in the product and labour markets, and the way in which firms and workers adapt to the new policy. In addition, judgments about inflation cannot properly be made in isolation from the macroeconomic policy response. The Monetary Policy Committee (MPC) of the Bank of England has a remit to achieve inflation of 2.5 per cent, defined as the RPI minus mortgage interest payments (RPIX), often referred to as underlying inflation. Their May 1998 Inflation Report comments on the consequences for monetary policy of inflationary pressure from the National Minimum Wage.
- 6.54 The inflation risk from a National Minimum Wage could also depend on the situation in the economy when the policy is introduced. In its evidence, the Government pointed out that if the level of output is above trend in 1999 there would be upward pressure on inflation which would be exacerbated by any additional wage pressure from a National Minimum Wage. If the economy is below capacity and the labour market is slackening, however, firms may find it harder to pass on higher wage costs and easier to resist any pressures to restore pay differentials. The March 1998 Budget forecast GDP growth in 1999 of between 1.75 and 2.25 per cent, which suggests growth could be slightly below trend.
- 6.55 There is a range of expectations among forecasters about likely developments in inflationary pressure. The latest projections by the MPC suggest that underlying inflation is most likely to fall slightly below 2.5 per cent in the second half of 1998 and during 1999, assuming constant nominal interest rates. These projections do not take into account the effects of the National Minimum Wage, which will be incorporated once details of the rate have been announced by Government.
- 6.56 A few studies have simulated the effect of a National Minimum Wage on inflation using macroeconomic models; recent examples include Garrard and Martin (1996) and Kleinwort Benson Research (1995). This approach depends on a range of assumptions and model specifications and the results are not definitive. But it illustrates the significance for inflation of increases in the wage bill and the response of monetary policy.

‘Though the details of the policy are crucial for determining the scale of the impact, the minimum wage is likely to increase the inflationary pressure in the economy by raising wages directly and also indirectly as other workers try to restore differentials, and as firms seek to mitigate the effect by raising prices. To the extent that inflationary pressure is increased, monetary policy will have to be tighter than would otherwise be the case to meet the prescribed inflation target of 2.5%.’

Bank of England Inflation Report (May 1998)

6.57 We considered various macroeconomic studies and commissioned the ITEM Club, an independent economic forecasting group, to conduct some simulations using the Treasury model of the economy under the assumption that monetary policy brings inflation to its base forecast after two years. Their analysis shows that a rise in the wage bill of 0.5 per cent adds 0.2–0.25 percentage points to inflation for two years, with the impact growing in proportion to the rise in the wage bill (see Table 6.4).

Table 6.4

Impact of Changes in the Wage Bill on Underlying Inflation			
Increase in the wage bill (%)	Effect after one to three years		
	First year (% point)	Second year (% point)	Third year (% point)
0.25	0.10	0.10	0
0.5	0.20	0.25	0
1.0	0.40	0.50	0
1.5	0.60	0.75	0

Source: ITEM Club simulations on the Treasury macroeconomic model, May 1998

6.58 It is a matter of judgment what levels of the National Minimum Wage would generate the wage bill rises in Table 6.4; these will depend critically on the way in which firms and workers react. We can, however, indicate the direct impact on the wage bill by calculating the entitlement to higher pay under a National Minimum Wage of employees who would otherwise earn below it.

6.59 Figure 6.4 shows that the NES and LFS estimates differ, and as advised by the ONS we take the mid-point between these as a working guide. This suggests that the impact of minimum rates of £3.00, £3.50 and £4.00 per hour for those aged 21 or over would be to raise the wage bill directly by around 0.25 per cent, 0.5 per cent and 1.0 per cent respectively at Spring 1997. In practice, inflationary pressures will depend on a range of dynamic adjustments in the economy. In particular, second-round effects on inflation occur if higher-paid workers seek to restore differentials and if producers seek to maintain profit margins. As we have discussed, we are confident that we can recommend a rate which will make a difference to a significant number of the lowest paid and at which the impact on pay differentials is both limited and localised.

- 6.60 Macroeconomic simulations, such as those presented in Table 6.4, cannot fully incorporate how working practices will adapt to the National Minimum Wage, and they cannot take into account potential gains in labour productivity. Nor do they allow for specific market conditions in the low-wage labour market. In competitive product markets, for example, businesses may have less scope to pass on higher costs to customers and there may be a greater cut in profits, at least initially. We cannot pre-judge how firms will adapt to the National Minimum Wage. But our consultations with businesses have given us valuable insights to enable us to judge how far increased wage costs may be passed on in higher prices.
- 6.61 A number of businesses likely to be affected by the National Minimum Wage produce internationally traded goods, such as clothing and horticulture. They face strong competitive pressures from cheaper imports, which mean that businesses are likely to resist increasing prices.
- 6.62 Businesses in other low-paying sectors may not produce internationally traded goods but may, nevertheless, face strong domestic competition which inhibits price increases. In retailing, small businesses do not have the purchasing power of the multiple stores and already tend to charge higher prices. They may find it difficult to increase prices in response to the National Minimum Wage if multiple retailers and supermarkets are able to maintain theirs.
- 6.63 Firms catering for especially cost-conscious customers will also be restricted in their ability to pass on costs. Small hoteliers in Weymouth, for example, told us that their potential customers often research the lowest price or attempt to negotiate discounts. In contrast, increased costs in luxury goods and services (for example, in larger hotel chains) are more likely to be recouped through some increase in prices. Upward pressure on hairdressing prices could also occur where there is limited scope for productivity to rise or other costs to be cut, although higher prices may be resisted by challenges from businesses operating in the informal economy. In the childcare sector, there is little scope to absorb increases, since labour costs make up the majority of total costs; prices are therefore likely to rise. But the childcare tax credit announced in the Spring 1998 Budget will both create additional demand for quality childcare and provide extra help with childcare costs for some workers.

‘Low cost imports have already cost hundreds of thousands of jobs in the UK, Europe and other developed countries. Any further diminution in UK manufacturers’ competitiveness would accelerate this trend.’

British Apparel and Textile
Confederation Evidence

‘The supermarkets want to chop back our returns year on year, as they fight their price wars and they only have to go overseas for cheaper products if we can’t deliver the goods.’

Evidence from a Soft Fruit Farmer

‘Competition within the [retail] sector is such that putting up prices is not a simple option. Many small stores already charge a premium over large supermarkets, so small retailers will have to absorb costs rather than pass them on to the consumer.’

Retail Trade Alliance Evidence

- 6.64 In the public sector, the central issue is whether local authorities will meet increased costs accrued by providers of local services, including costs for out-sourced catering and cleaning services. This consideration could be especially significant in the social care sector. The impact will depend on local circumstances, but is likely to be moderated by over-capacity in care homes and the existence of long-term service contracts. We recognise, however, that there will be further pressure on local government to examine the scope for efficiency gains, as well as the levels of local taxation, and the overall provision of services. On the basis of a 1997 survey of small residential homes with fewer than ten beds, the Forum of Private Business said that the 'cost impact would increase sharply at a level above around £3.40 per hour'. It remains to be seen whether competition is sufficient to allow public sector customers to resist higher prices.
- 6.65 In conclusion, the National Minimum Wage will cause some initial upward pressure on price levels, which will differ between sectors. We are confident that we are recommending a level at which wage restoration will be limited while competitive pressures in many low-paying sectors will inhibit price rises. In addition, the National Minimum Wage is not expected to be subject to regular annual revision, and certainly not in any index-linked fashion. Hence the impact of our recommended National Minimum Wage on inflation is likely to be small, and subsequent pressures are unlikely to cause a lasting increase in inflationary expectations.

Employment

- 6.66 We reviewed the extensive and controversial literature on the employment effects of minimum wages. Standard economic theory predicts job losses if minimum wages are set above market rates, and a range of empirical studies indicate that high minimum wages have a negative effect on employment. Researchers disagree, however, about the impact of more moderate levels. The 'new economics' of the minimum wage argues that the existence of monopsony (employer power which leads to workers being paid less than their marginal product) in the labour market means that moderate minima can be introduced without destroying jobs (see Appendix 11 for further information).

- 6.67 Elements of monopsony probably exist in some labour markets. A number of researchers have pointed to evidence that disadvantaged groups may earn less than the value they add through their work. It has been suggested, for example, that many female part-time workers may often work in jobs where pay is lower than the skills and content that their jobs merit (Horrell et al., 1989). Many of the low paid have circumstances which may enable firms to employ them at less than the market rate. Around a quarter of the low paid are married women or lone mothers, for example, whose ability to secure the market rate may be hindered because their working hours or travelling are restricted by family commitments.
- 6.68 Whatever the nature of the labour market, it is likely that a National Minimum Wage will have a greater effect on the structure of employment than on its level. Businesses which are inefficient or which produce low value-added goods may need to re-organise working practices. If the National Minimum Wage is properly enforced, business and employment are likely to transfer to more efficient firms or to those offering higher value-added products and services. Some of the literature also suggests that minimum wages may cause a transfer of jobs between groups such as the substitution of more skilled for less skilled workers (OECD, 1998b).
- 6.69 Although research is not able to indicate with precision the likely jobs impact of introducing the National Minimum Wage, studies in four areas have guided our assessment: UK pay legislation, such as the minimum rates set by the Wages Councils; simulations of the impact of minimum wages using macroeconomic models; international experience of minimum wages; and analysis of low-paying sectors.

UK Pay Legislation

- 6.70 We were particularly interested in the experience of the Wages Councils and the Agricultural Wages Boards which set minimum rates in certain low-paying industries until the former were abolished in 1993 (see Appendix 5). We looked at a range of research, such as econometric analyses and case studies, which assessed the impact of the Wages Councils during their operation and the consequences of their abolition.

- 6.71 Studies analysing the impact of the operation of the Wages Councils prior to the 1980s generally found evidence of a small negative effect on jobs. This was the case both for studies of the Wages Council sector as a whole, such as Kaufman (1989), or analyses of individual Councils, such as work by Morgan et al. (1985) and Canning and Tarling (1985) on the clothing industry. By contrast, studies analysing the post-1980s impact, such as Machin and Manning (1994), found no evidence that the operation of the Wages Councils affected employment.
- 6.72 Abolition of the Wages Councils in 1993 provides an opportunity to examine further the impact of minimum rates on jobs. Dickens et al. (1995c) examined jobs, unemployment and vacancies in Wages Council sectors pre- and post-abolition. They found no evidence that the Wages Councils' share of total employment rose significantly in the period immediately following abolition nor of any correlation between changes in local wages and local unemployment and vacancies. Crossman (1995) investigated changes in pay and jobs in four London hotels following abolition of the Licensed Residential Establishment and Licensed Restaurants Wages Council and found no evidence of a growth in employment post-abolition.
- 6.73 We also considered whether there were lessons from the experience of equal pay legislation. When the Equal Pay Act (EPA) was introduced in the 1970s, women's pay relative to men's rose by 10 percentage points during a period when female employment also continued to grow. The implications for the National Minimum Wage are limited, however, because the Sex Discrimination Act was introduced at the same time as the EPA to prevent women losing their jobs as a result of their entitlement to higher pay. But it suggests that if the National Minimum Wage raises the relative pay of women it will not automatically be accompanied by a decline in their relative employment.
- 6.74 Further evidence on the impact of raising the relative pay of women comes from case study experience of equal value claims. Several large supermarket chains, for example, have in the past altered their pay structures as a result of, or in anticipation of, claims from female check-out operators for equality of pay with male employees in other jobs. There is no evidence generally that such claims have substantially altered employers' demand for female workers or of compensating demands for pay restoration among their male counterparts.

Macroeconomic Models

- 6.75 Several researchers have simulated the employment consequences of the introduction of a minimum wage in the UK using the macroeconomic models devised by forecasting groups. The models produce diverse results and there is no clear consensus. Bazen (1990) calculated the impact on jobs of a minimum wage of half male median earnings using various macroeconomic models, which gave a range of job losses of between 9,000 and 259,000 depending on the model used. Garrard and Martin (1996) also examined the employment effects of a minimum wage using a macroeconomic approach and calculated a wide range of possible job losses, depending on the level set and assumptions about the restoration of pay differentials.
- 6.76 The macroeconomic approach is necessarily based on assumptions: for example, the increase in labour costs caused by a National Minimum Wage, such as any rises due to wage restoration; the sensitivity of jobs to changes in wages; and the stance of monetary policy, that is whether interest rates are increased in response to inflationary pressures. Moreover, the models cannot take into account how people will in practice adapt to the National Minimum Wage. Neither do they allow for monopsony in parts of the low-wage labour market. In our judgment these are critical factors determining the overall employment effect.
- 6.77 For the above reasons we believe the simulations generally overstate the likely impact of the National Minimum Wage on jobs. They indicate, however, that it is important to recommend a sensible rate at which wage restoration is limited, and where upward pressure on the overall wage bill is small.

International Experience

- 6.78 Although introducing the National Minimum Wage is a new policy for the UK, there is plenty of experience of minimum wages in other countries. We scrutinised academic studies and consulted widely with organisations such as the OECD for lessons from international practice. The literature contains a variety of views but its general tone has moved from discussing the scale of the impact on employment to questioning whether there are negative effects on jobs at all. A major difficulty, and a significant conclusion, is that the impact of minimum wages is small

compared with other factors influencing employment. As a result, it may often be virtually impossible to identify employment effects with any precision using standard econometric techniques.

- 6.79 We considered a large amount of international literature, particularly from the US, which concluded that minimum wages damage the employment of low-productivity workers. A useful summary of the earlier American studies is found in Brown et al. (1982). We also reviewed more recent work which challenged traditional economic theory and empirical research, claiming that minimum wages can have insignificant or even small positive effects on employment in certain circumstances (Card and Krueger, 1995). That work has, in turn, been subject to scrutiny (Ehrenberg, 1995) and generated further empirical work with conflicting results (Neumark and Wascher, 1995; Bernstein and Schmitt, 1997).
- 6.80 While there are unanswered questions in the international evidence, it suggests that there have been times when minimum wages have contributed successfully to social policy without reducing employment. There have also been times when minimum rates may have cost jobs, mostly among young people. The design and level of the National Minimum Wage are therefore crucial. This lesson was at the forefront of our recommendation on lower rates being available for young people. A second lesson is that it seems risky for an initial level of the National Minimum Wage rate to exceed general practice internationally, where minimum rates have been in place some time, thereby allowing economies to adjust.

Sector Studies

- 6.81 A key message from businesses was that the impact of the National Minimum Wage on employment would be strongly influenced by competitive pressures in each sector, the scope for efficiency gains, the sensitivity of demand to changes in price, and the management of change.
- 6.82 We described earlier some of the pressures that sectors already face. A study we commissioned into the retail sector concluded that substantial business failures are unlikely to result from the National Minimum Wage alone. Its introduction may, however, accelerate a trend to closure of smaller concerns in the face of strong competition and the expansion of larger businesses.

- 6.83 Some transfer of business and jobs within residential and nursing care may also occur. There is currently a degree of over-provision in the market and the National Minimum Wage may accelerate the extent to which less profitable homes close with business transferring to more profitable homes better able to pay higher wages. We met a number of owners of small care homes on our visits, who expressed concerns about the viability of their businesses.
- 6.84 Some of the evidence also identified increased mechanisation as a possible source of job loss. The Scottish Grocers' Federation told us that 'higher wage costs will create a need for higher productivity and reduce jobs at a faster rate as employers increase mechanisation, self-scanning and more efficient information systems in order to reduce labour costs'.
- 6.85 Views on the effects in the hospitality sector were mixed. A KPMG study commissioned by the major trade associations in the hospitality industry predicted that employment would fall by between 1.4 per cent and 7.2 per cent in the hospitality and leisure industry as a result of a National Minimum Wage at levels between £3.25 and £4.26 per hour (1997 figures). Oral evidence from the industry, however, suggested that business would also look at revising employment structures and may cut hours rather than jobs. And the view of the GMB union was that 'employment in the hotel and catering industry affects quality. Reductions in employment are unlikely to be an option as there is little opportunity for capital substitution.'
- 6.86 UNISON's evidence highlighted the positive effects on job opportunities, stating that 'a National Minimum Wage introduced with skill and care should not cost jobs and could create them. If it encourages efficiency, provides an incentive to training, reduces staff turnover, and improves the spending power of millions of households, it is likely to create jobs in the long term'.
- 6.87 In conclusion, we believe it is inevitable that the introduction of the National Minimum Wage will cause some re-organisation within sectors and businesses. There will be some continuing transfer of employment from businesses which are less able to manage increased costs to more profitable and more efficient businesses. And where businesses operate in highly competitive markets, the National Minimum Wage may accelerate existing trends.

'I would love to pay my staff more, there are many sound arguments for doing so. At the risk of appearing alarmist, if I were now forced to pay an increased level of wages, I would at some point be forced out of business.'

Evidence from an Owner of a Nine-bed Residential Home, Devon

There will be wider benefits from a National Minimum Wage, but our cautious approach, guided by labour market studies and a wide consultation process, should not lead to a significant impact on employment.

Public Sector Finances

- 6.88 The National Minimum Wage will have complex implications for public finances in both central and local government. For central government, there should be savings from reduced in-work benefit payments and increased National Insurance (NI) and income tax revenues. There will also be costs through increased out-of-work benefit payments if jobs are lost, an increase in the Government's own wage bill, and potential increases in the price of the goods and services it purchases. At a local level, the National Minimum Wage will increase costs both through local authorities' wage bills and potentially through the goods and services they purchase. Whether these increased costs are financed by cost-cutting, efficiency gains, higher local taxes or increased grants from central government will depend on individual circumstances.
- 6.89 We asked the Treasury, Inland Revenue and the Department of Social Security to quantify the likely costs and revenues to the Exchequer, and the Department of Trade and Industry provided estimates from across departments in the Government evidence. We also undertook further work on the impact on the National Health Service (NHS) and other areas. The extra revenues and costs depend, however, on a number of unknown factors such as the responses of businesses and workers to the National Minimum Wage, changes in the labour market, and the impact of tax and benefits reform. And as the Government stated in its evidence, 'the net effect on the PSBR (Public Sector Borrowing Requirement) of these changes cannot be estimated with precision'. The figures in this section indicate where possible the first-round effects on the Exchequer. That is, they do not incorporate predictions of changes in the distribution of pay, the extent of wage restoration, the impact on jobs, or further reforms to the tax and benefits system.
- 6.90 A number of substantial tax and benefit changes were announced in the Spring 1998 Budget. Our figures below are based on the impact of the National Minimum Wage

under the tax and benefits regime announced in that Budget, incorporating the Working Families Tax Credit (see Appendix 4 for a description). They are based on the most recently available incomes data, from 1995/96, uprated to 1998/99 prices.

Tax Credits and In-Work Benefits

- 6.91 As earnings of the low paid rise, there will be a reduction in expenditure on tax credits and on in-work benefits, such as Housing Benefit, Council Tax Benefit and the Disability Working Allowance. This is a positive effect. We heard anecdotal evidence that some employers have been exploiting the current in-work benefits system. In these circumstances, in-work benefits have acted as a subsidy to the employer rather than as a work incentive for the individual. Employers can pay their workers a lower wage, knowing that the state will make up their income.
- 6.92 In November 1997, 665,000 employed families were in receipt of Family Credit, of whom 231,000 earned below £3.50 per hour. Annual expenditure is estimated at around £2.3 billion for 1997/98. The Department of Social Security (DSS) estimated for us the tax credit and in-work benefit savings which may accrue in Great Britain from bringing the low paid up to various minimum levels, assuming no restoration of pay differentials and no job losses (see Table 6.5). The figures suggest that savings on tax credits will be similar to the savings on in-work benefits, and their combined saving is estimated at £240 million for a National Minimum Wage of £3.25 per hour, rising to £490 million at £4.00 per hour.

Table 6.5

Annual Savings from Tax Credits and In-work Benefits (£m)				
	£3.25 ph	£3.50 ph	£3.75 ph	£4.00 ph
Savings on tax credits	130	160	200	250
Savings on in-work benefits	110	145	190	240

Source: Department of Social Security

Note: Figures provided at April 1998; based on the 1998/99 tax-benefit system plus the WFTC; analysis of 1995/96 Family Resources Survey data at 1998/99 prices.

Tax and National Insurance

6.93 The increases in earnings generated by the National Minimum Wage will bring higher income tax and NI receipts. Table 6.6 shows the estimated extra income tax and NI receipts derived from bringing those below the minimum up to that level based on a constant unemployment assumption and assuming no restoration of pay differentials. The estimated increase in tax revenue is the same as the increase in NI receipts, with a combined annual saving of £500 million at a minimum rate of £3.25 per hour rising to £950 million at £3.75 per hour. Moreover, as many of the people whose pay is increased will be on low incomes, they are likely to spend most of their increased earnings. This will generate additional VAT receipts.

Table 6.6

Annual Increase in Income Tax and NI Contributions Yield (£m)				
	£3.25 ph	£3.50 ph	£3.75 ph	£4.00 ph
Income tax yield	250	350	475	650
NICs yield	250	350	475	650

Source: Inland Revenue

Note: Figures provided at April 1998; based on the 1999/2000 tax-benefit system; analysis of 1995/96 Family Expenditure Survey data at 1998/99 prices.

- 6.94 These figures do not take into account the reactions of businesses and workers. Any reclassification to self-employment and growth in informal working, for example, will reduce tax gains. In addition, if the National Minimum Wage is set at a level which damages the productive potential of the economy and costs jobs, there would probably be a net loss in tax revenues. It is not possible, however, to quantify these effects with precision and we believe our recommendations will not have such detrimental effects.
- 6.95 If the National Minimum Wage reduces firms' profits, then revenues from corporation tax will fall, which could partially offset the gains in income tax, NI contributions and VAT. It is not possible to estimate these effects with precision. Inland Revenue have provided calculations which indicate what could follow if the increase in wages

and employers' NI contributions are not passed on in higher prices, but instead lead to an equivalent fall in taxable profits for companies. Under this assumption corporation tax receipts decrease by around £450 million at a minimum rate of £3.50 per hour.

Out-of-Work Benefits

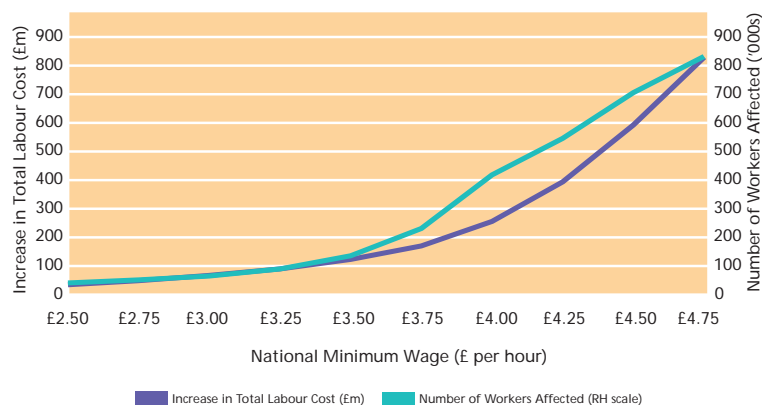
- 6.96 If the National Minimum Wage is set at a level which causes job losses, there would be increased expenditure on out-of-work benefits. These include the Jobseeker's Allowance, Income Support, Housing Benefit and Council Tax Benefit. The DSS project the average benefit cost of an unemployed person as £3,850 per person per year for 1998/99. The benefit costs of any net jobs lost after introduction of the National Minimum Wage are likely to be substantially less, however, than this average benefit cost. A large proportion of those earning below the National Minimum Wage are married women who may not be entitled to income-related benefits, and young people whose benefit entitlements are comparatively low. In addition, any tax and NI revenues lost will be comparatively small, as those who might lose their jobs are low paid and disproportionately work part-time.

Public Sector Pay Bill

- 6.97 Low pay is less prevalent in the public sector. This may in part reflect the continuation of collective bargaining for most public sector employees, which may secure higher rates at the lowest point of the wage distribution. Hence the wage bill effects in the public sector will be more moderate than in the private sector. The Government's evidence indicated that, on the basis of April 1997 NES figures, the wage bill for directly employed staff (central and local government and the NHS) would increase by around £125 million per year at a National Minimum Wage of £3.50 per hour. It also indicated that the costs to the public sector increase more rapidly above around £3.75 per hour on April 1997 figures (see Figure 6.8).

Figure 6.8

Impact of a National Minimum Wage on the Public Sector Pay Bill



Source: HM Treasury

Note: The increase in total labour costs includes employer's National Insurance and pensions contributions and relate to a full year. Estimates are based on data from the April 1997 NES and are at 1997 prices.

‘Since the establishment of NHS Trusts, many of them have taken positive steps to decrease low pay by differential pay awards or establishing local minimum pay levels. These Trusts have been able to do so within existing budgets, by increasing productivity; establishing innovative reward packages; and other measures such as incorporating enhancements into base pay.... In practice, those employers that have already addressed low pay have found that differentials have not been seriously affected – because they have been able to deal with this as part of an overall strategic approach to pay.’

Association of Healthcare Human Resource Management Evidence

- 6.98 The above Government estimates may understate the wage cost, because being NES-based they omit many employees below the PAYE threshold and take no account of any restoration of pay differentials. On the other hand, the estimates do not incorporate the Single Status Agreement in local government, which included a minimum £4 hourly rate of pay from April 1997 for directly employed staff. Nor do they allow for any growth in public sector pay since April 1997, which would reduce the impact of any given minimum introduced in 1999 (e.g. the minimum rate in local government is £4.12 per hour from April 1998). In central and local government, education and most other government services, the direct impact on the wage bill of the National Minimum Wage will therefore be small.
- 6.99 The largest impact within the public sector is likely to be in the NHS, where over one million people are employed. But calculating this effect is extremely difficult, since the NHS Management Executive stopped collecting detailed pay data some years ago. About 90 per cent of NHS Trusts use Whitley-based contracts and the lowest Whitley Council rates are £3.46 per hour (from December 1997). Pay review body rates (covering doctors, dentists, nurses and professions allied to medicine) are significantly higher, and locally negotiated rates probably at least as high. Evidence from human resources professionals suggested that steps are being taken by NHS Trusts to tackle low pay.

6.100 Evidence from Pay and Workforce Research, which is part of the NHS, was less positive. They provided us with survey material obtained from 40 NHS Trusts out of a total of 429. It indicated that ‘the step between a rate of £3.20 and £3.70 per hour has a considerable impact on employers’ (1997 figures), with almost 4 per cent of the workforce affected at £3.70 per hour.

Public Procurement and Contracted-Out Goods and Services

6.101 The National Minimum Wage could also add to government expenditure through extra costs of goods and services purchased from the private sector. Although the Government evidence provided us with some broad overall assessment, no employers in central government, local government or the NHS could confidently quantify the pay implications of contracting out, despite the substantial increase of the influence of external contractors in the last twenty years. Many providers of contracted-out goods and services (e.g. social care, cleaning, refuse collection and security) are employers of low-paid workers. If the National Minimum Wage raises their costs, and if they can pass them on to government, there will be an increase in government expenditure as a result.

6.102 The Government evidence stated that the overall contribution of private sector wages to public sector procurement costs was in the range £20–30 billion in 1995. The incidence of low pay within this total is unknown. The Government’s evidence suggested that ‘if the incidence of low pay were similar to that in the whole economy, then the amounts at risk could be of a similar order to the direct impact on public sector wage costs’. Whether, and over what period, the additional wage costs are passed on through increased charges will depend on the nature of existing contracts and the responses of the sectors. Some contractors can certainly be expected to accept a trimming of profit margins in order to maintain their competitiveness.

6.103 The net effect on public sector finances depends on a number of factors which the Government itself is understandably unable to assess with any accuracy. In particular, it is not possible to predict accurately how workers and firms will adapt to the National Minimum

Wage. We believe that it is possible to recommend a rate which provides a significant rise in earnings for the lowest paid, but which causes negligible job loss. In this case, the net effect on public sector finances should be relatively small and could be beneficial.

Conclusion

- 6.104 We recognised from the outset that regardless of how much data we collected, how rigorous our analyses, or how many people we consulted, our decisions on the level at which the National Minimum Wage should be introduced would ultimately rely to a large extent on our judgment. If some formula could sensibly have been applied, our task would have been a great deal easier and, arguably, unnecessary. Our conclusions are based on what we learned from our extensive consultations across the UK, no less than on an analysis of domestic and international experience. Both approaches are valuable, even though both revealed ambiguities and contradictions. Our synthesis of the two did nevertheless allow us to reach unanimous agreement on our recommendations.
- 6.105 The general acceptance by employers and employees of the principle of a National Minimum Wage was not matched by a common view as to the level at which it should be set. We received some representations arguing for a rate below £3, and others for one in excess of £4 per hour. We were particularly concerned to understand the position of those in, and representing the interests of, low-paying sectors.
- 6.106 We were equally conscious that our recommendations could have a direct impact on the operation, and possibly even the viability, of businesses across the UK. The commercial reality behind data on, for example, lowest decile earnings was brought home to us by our discussions, in particular with small enterprises in a range of sectors across the UK. Our recommendations should not irresponsibly risk employment opportunities or the future of well-run companies.
- 6.107 When offering views on rates, representative organisations understandably tended to highlight their members' worst-case problems. But there was a general sense from across low-paying sectors, reinforced by our direct contact with a wide range of firms and individuals working in them, that the large majority of businesses currently manage to pay

rates at or just above £3.50 per hour. We came across firms paying below this level, but we met others operating in comparable circumstances which are paying above it. These considerations helped us to focus on exactly how we could prudently balance economic and commercial reality with social responsibility.

- 6.108 We were concerned to test our conclusions against domestic and international experience. We learned a great deal about Wages Council rates both from employers and workers in sectors previously covered by these Councils, and from economic analysis of their operation and abolition. In doing so we recognised that our recommendations would cover a wider range of sectors than the Councils had; this in part reflects the growth of new low-paying industries. The Wages Council rates had tended to decline in toughness in the years leading up to abolition. We saw no evidence that the rates in operation at the time of abolition were damaging their industries. There was therefore no reason to introduce a rate that was weaker than that set by Councils at their abolition in 1993. There are, however, a variety of ways to update the rates which, at their abolition, were set by 24 Councils. Evidence to the Commission from Dickens et al. concluded that uprating an employment weighted average of the Wages Council rates to October 1998 would yield a rate of £3.85 per hour. An alternative and more conservative uprating to April 1997 based on movements in lowest decile earnings yields a rate of £3.46 per hour. More dramatic differences – producing figures closer to £3 and £4 – can be achieved by focusing on individual Councils.
- 6.109 International experience is open to even wider interpretation, and suffers from the additional difficulty of ensuring comparability of national statistics and practice. International comparisons based on purchasing power parity and median pay show a wide diversity of rates. For the nine national systems noted earlier in the chapter (Table 6.3), purchasing power parity rates vary between less than £2 and over £4.50 per hour. To take another indicator, minimum rates range between about 30 per cent and 60 per cent of full-time median earnings. In the UK, this range equates to earnings of £2.30 and £4.60 per hour respectively in terms of median earnings for full-time adult employees (NES, April 1997). Using the same NES data, the range £3.40–£3.60 per hour represents about 45 per cent of median earnings. Bearing in mind that the

NES understates the numbers of low paid, and hence overstates the median, this range may be closer to half median earnings.

- 6.110 If the National Minimum Wage is to create a floor to earnings of any substance, it must be set at a level which will benefit a significant proportion of the lowest paid. This proportion can be estimated for different levels of the wage, using the ONS methodology, taking into account the various biases discussed in Appendix 2. It suggests that, in Spring 1997, the proportion of all employees aged 21 or over who would have experienced an increase in pay to a £3.40 per hour minimum is 8.5 per cent. The comparable figures at £3.50 and £3.60 per hour are 9.6 per cent and 11.1 per cent respectively.
- 6.111 Nearly all of our visits, meetings and evidence collection were completed well over a year before the date, April 1999, when we recommend that the National Minimum Wage should be introduced. Much of the material we received was inevitably based on data and surveys dating back to early 1997, and some even earlier. Moreover, the initial rate can be expected to apply into at least the year 2000, some three years after much of the evidence we received was prepared.
- 6.112 Our overall conclusion from looking at evidence together with domestic and international experience was that a minimum rate of somewhat under £3.50 per hour at 1997 prices would achieve the twin objectives of being prudent while also making a difference to the lowest paid. We have taken a conservative view as to the level to which this would equate to when the National Minimum Wage is introduced. Our assessment is based more on movements in the RPI and RPIX than in the Average Earnings Index. **We advise that the appropriate rate for the National Minimum Wage should be £3.70 per hour in June 2000. Consistent with introducing the wage at an earlier date and our aim to proceed with prudence, however, we recommend that the initial rate of £3.60 per hour should be introduced in April 1999.**
- 6.113 In addition, we have recommended a Development Rate which can be applied as the Minimum Wage for those aged 18–20, and – for a maximum of six months – for those aged 21 or over who are starting a new job with a new employer and are in receipt of accredited training. The rate should be one which offers a reasonable level of remuneration.

If the rate were too far detached from the full National Minimum Wage, there could be insufficient incentive to take up training or the jobs themselves. Employers also need to be clear that the Development Rate applies to real jobs, while at the same time giving them the right incentive to provide proper training. In short, the Development Rate needs to be set at a level which provides a sufficiently attractive and affordable first step on a genuine jobs ladder.

- 6.114 The potential for international comparison is limited at this age range, since most of the overseas systems we studied apply a full rate at a younger age. Applying the ONS methodology, the numbers of 18–20 year olds which would be affected increase relatively gradually and consistently as earnings rise up to £3.00 per hour at Spring 1997 prices. Each 20 pence rise to this point increases the coverage of this age group by some 45,000. Above £3.00 per hour (Spring 1997), earnings coverage increases significantly. Thus a further 20 pence to £3.20 per hour (Spring 1997) brings in around 80,000 additional employees. Taking £3.00 per hour (Spring 1997) as the reference, and making adjustments, again conservatively, for movements in earnings, **we recommend that an initial Development Rate of £3.20 per hour should be introduced in April 1999. Our advice is that the appropriate Development Rate in June 2000 should be £3.30 per hour.**
- 6.115 Applying the ONS methodology, and discounting to Spring 1997, some 235,000 of those earners in the 18–20 age group would benefit from a Development Rate set at £3.20 per hour in April 1999. On the same basis, the total coverage of all employees aged 18 or over who would benefit from the application of the full and Development rates is about 9 per cent. Over time, this coverage will reduce as overall earnings increase. This reinforces our view that the initial rate should be reviewed by the Commission. We believe a National Minimum Wage needs to have a continuing life, and thus be periodically updated.

7 Assessing the Impact

The impact of the National Minimum Wage will vary for different business sectors and different regions of the UK. In total around 2 million people should receive higher earnings as a result of the recommendations, but the impact on the UK wages bill will be around 0.6 per cent. Most businesses, even in low-paying sectors, will be able to accommodate the National Minimum Wage, but some, particularly smaller firms in labour-intensive service sectors, may have to make adjustments. Workers in all regions of the UK will be directly affected, including some 400,000 people in London and the South East. The majority of those affected will be women. Significant numbers of homeworkers, non-white workers, lone parents and young people will see rises in earnings. The National Minimum Wage will also improve the income of many families in receipt of in-work benefits.

- 7.1 A National Minimum Wage at the level we have recommended will make a substantial difference to the lives of many low-paid workers. We have been prudent in recommending a rate which the evidence suggests the great majority of firms will be able to accommodate. Firms competing only on the basis of low wages, rather than productivity, service and quality, may experience serious difficulty in complying with our recommendations. Many firms in low-paying sectors already compete effectively and pay wages in excess of the proposed initial National Minimum Wage rate. Others have been raising their pay rates in anticipation of our recommendations.
- 7.2 Our assessment of the impact of our recommendations on the low paid and their employers is based on the latest data available but, since the labour market is constantly changing, our figures can only be indicative. The full consequences of the National Minimum Wage will depend on the reactions of firms and workers over a period of some years. We provide below a cautious appraisal of where the immediate effect of the National Minimum Wage is likely to be felt.

Use of Data

- 7.3 The current best estimate of low pay is derived by applying the Office for National Statistics (ONS) central estimate

method, which we discussed in Chapter 6. Unfortunately, this can be applied only to Spring 1997 data, which is the latest available New Earnings Survey (NES) data; and the latest data available to us when undertaking our assessment are Autumn 1997 Labour Force Survey (LFS). Yet our recommendation is for 1999/2000. With the passage of time, the whole national earnings distribution gradually shifts. As a result, it would be very misleading if we assessed the impact of the introduction of the National Minimum Wage simply by examining our recommended rate using 1997 data. If we did so, the number of people directly affected could be overstated by several hundred thousand.

- 7.4 Correcting for this is not straightforward. We cannot be certain about future movements in pay, and in any case low pay moves rather differently from average pay (see Appendix 3). In general, however, there is real earnings growth across the whole of the labour market. It is therefore reasonable to assume that low pay has grown at least as fast as inflation since the data were collected and will continue to do so until the National Minimum Wage is introduced.
- 7.5 As discussed in Chapter 6, over the period October 1997 to April 1998 the Retail Prices Index (RPI) grew at 1.9 per cent and from April 1997 to April 1998 by 4.0 per cent. The current target for underlying inflation for the year from April 1998, set out in the Chancellor's March 1998 Budget Statement, is 2.5 per cent. The application of these figures to our initial rate of £3.60 in April 1999 implies that the equivalent rate in round terms in the Autumn of 1997 would be £3.45 per hour with a Development Rate equivalent to £3.05 per hour. Figures for Spring 1997 are £3.40 and £3.00 per hour respectively. We have therefore used these figures in making our assessment of the likely impact of our recommended National Minimum Wage. We stress that this is a cautious approach and that earnings growth is likely to exceed these levels. Thus the number of people covered may be fewer, and the direct cost to business is likely to be less, than we indicated.
- 7.6 In the following sections we discuss the impact of the National Minimum Wage on business and employees. Where possible we have applied the ONS methodology outlined in Chapter 6, but this cannot yet be applied to

most of the sectoral analyses. For such analyses we generally use NES data to estimate the impact on firms' wage bills and the LFS to estimate coverage within various groups of the economy; these are subject to the normal caveats outlined throughout this report. A summary of estimated likely effects is set out in Table 7.1.

Table 7.1

Estimated Coverage and Cost of the National Minimum Wage				
	Numbers affected (000s)	Proportion of group affected (%)	Increase in wage bill (%)	Average increase for those affected (%)
All 18+	2,050	9	0.6	30
18–20	235	21	3.9	32
21+	1,815	8	0.6	30
Male full-time workers	320	3	0.3	–
Male part-time workers	240	26	3.0	–
Female full-time workers	340	5	0.7	–
Female part-time workers	1,150	22	2.7	–

Notes:

Estimates assume all 18–20 are paid the Development Rate.

Figures are based on ONS central estimate method using combined NES and LFS for Spring 1997.

– indicates that reliable estimates are not available.

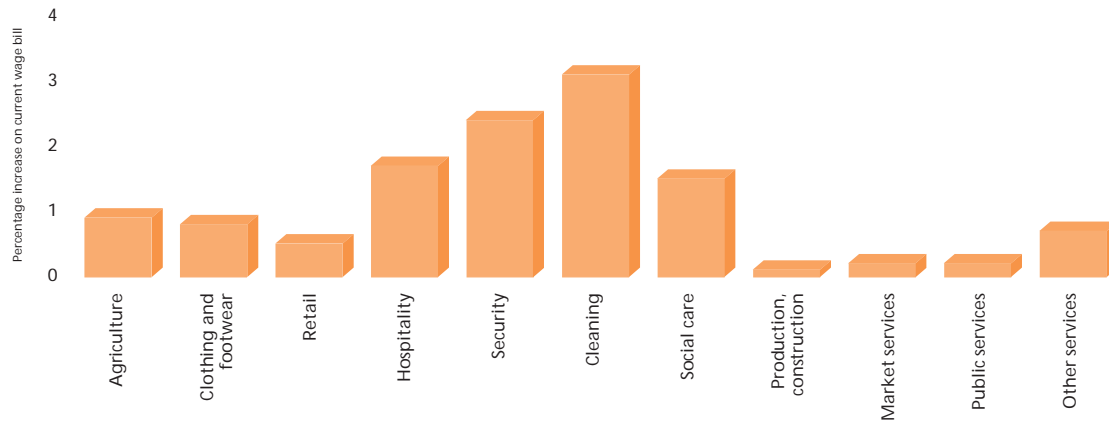
Initial rates for April 1999 have been deflated by RPI to £3.40 and £3.00 per hour.

Impact on Businesses

- 7.7 Table 7.1 shows that the National Minimum Wage will directly increase the wage bill in the UK by around 0.6 per cent. The effects will vary depending on the business sector, the size of firm and the types of worker employed. At our recommended rate, the National Minimum Wage will affect few workers directly employed in the public sector. And for the great majority of businesses, even in low-paying sectors, our assessment is that the National Minimum Wage will be manageable. Some smaller businesses and those which have been competing simply on the basis of lowest cost through lowest pay will face the largest average increases in wage costs.
- 7.8 For all businesses, the wage bill is only one element of overall costs although, as discussed in Chapter 6, for sectors such as cleaning, security and social care, wage costs account for a high proportion of total costs. Figure 7.1 shows the proportional impact of the recommended National Minimum Wage on the gross wage bill of a

Figure 7.1

Direct Increase in Sectoral Wage Bill Arising From the National Minimum Wage



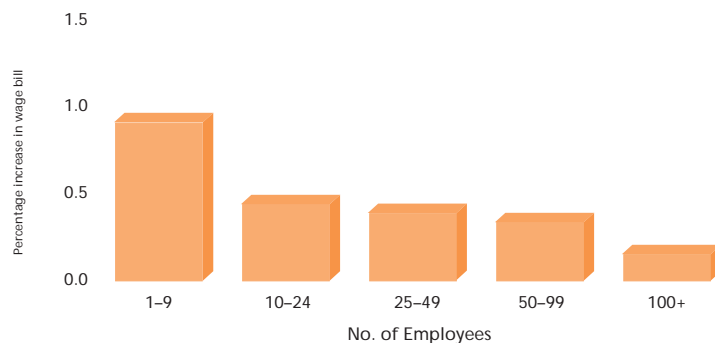
Source: NES, April 1997

number of business sectors. These data are based on the direct consequences of raising the wages of those paid below our recommended rate up to that rate. It does not take account of costs that might result from any subsequent restoration of internal pay differentials, but nor does it assume any improvements in labour productivity that might be stimulated by the introduction of the National Minimum Wage.

7.9 Figure 7.2 shows the impact of the National Minimum Wage by size of enterprise. Small firms are more likely to be affected by the National Minimum Wage because they tend to be clustered in low-paying industries and pay lower wages than larger enterprises.

Figure 7.2

Implications of the Introduction of the National Minimum Wage for the Wage Bill by Size of Enterprise

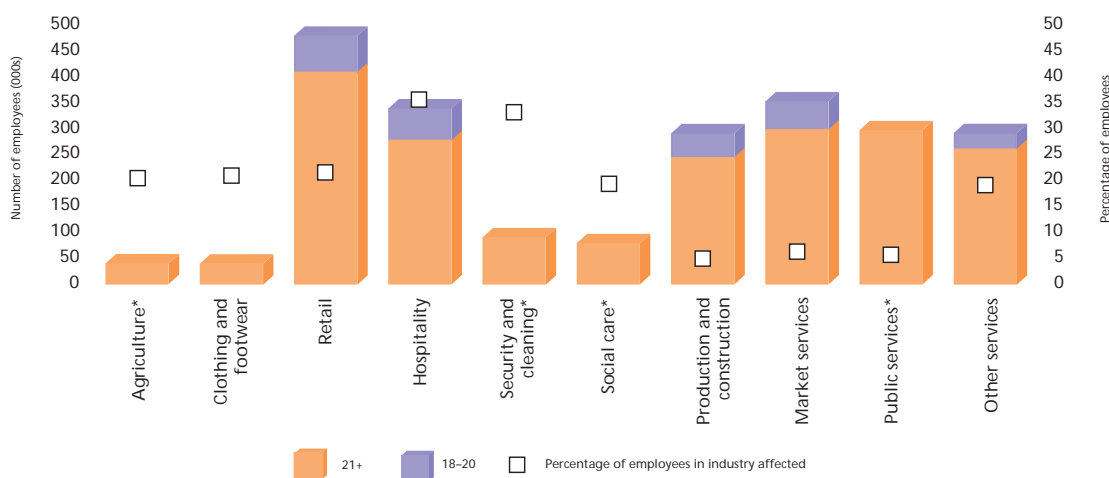


Source: NES, April 1997

7.10 In choosing the rate, we were careful to consider the views of lower-paying sectors and smaller firms. We also considered the business requirements and current payment practices of low-paying sectors, and have aimed to accommodate these in our definition of the National Minimum Wage. We discuss below our judgment about the impact of our recommendations for the sectors in which low pay is most concentrated. Low pay exists in many other business sectors, but because of a lower concentration of the low paid in these sectors the impact of the National Minimum Wage will tend to be dissipated. Our estimates are based on LFS data and earnings growth, as set out in paragraph 7.6. These are the best estimates available, but they are likely to overstate numbers because of the bias of the LFS.

Figure 7.3

Numbers of Employees Affected by the National Minimum Wage by Age and Industry



Source: LFS, Autumn 1997

*Total employees only; no data available for 18-20 due to small sample size.

7.11 *Retail* is the largest employer of low-paid workers, and estimates suggest that up to half a million workers in this sector could be affected by our recommendations. Of these, an estimated 70,000 are aged below 21. Most major retail chains pay above our recommended level. The impact of the National Minimum Wage will be on small stores which will continue to face fierce competition from the growth of multiple stores. Written evidence from trade associations representing small stores indicates that although there will be some substantial increases in wage bills for some companies, the majority of stores will be able

to cope with our recommendations. Commission payments can be included towards compliance with the National Minimum Wage. We were told that these are prevalent in some areas of retail and their inclusion will help reduce any disruption to existing pay systems.

- 7.12 The greatest impact of the National Minimum Wage in the *hospitality* sector will be in the smallest outlets, in low-paying areas and those businesses heavily dependent on seasonal visitors. In total up to 340,000 workers could be affected. Of these, around one-fifth are under 21 years of age and may be covered by the Development Rate. In some companies the proportion of young workers is particularly high; for example in Burger King UK, 50 per cent of workers are aged 16–18. Some hotels and public houses provide subsidised live-in accommodation for their employees, and certain costs here can be offset against the National Minimum Wage. Furthermore, tips controlled and allocated centrally can be included in the calculation of the National Minimum Wage. Together these should help smooth the introduction of a National Minimum Wage in this sector.
- 7.13 The evidence we received confirmed that there is a wide range of pay rates for guards in the *security industry*, including some extremely low rates. The British Security Industry Association in its evidence supported a National Minimum Wage but suggested a figure of £3.20 (for 1997) in line with their estimate of the uprated average of Wages Council rates. Many security companies will face increased costs when the National Minimum Wage is introduced. In the medium term, however, employers may be able to pass extra costs on to clients: a security service is often an insurance requirement and there may be limited possibilities for clients to cut back on the service. The existence of a sensible wage floor may shift business towards employers providing better quality services.
- 7.14 The *cleaning sector* also has some very low pay rates, and the National Minimum Wage will have a significant impact on wage costs here. But 1997 membership surveys by both the Cleaning and Support Services Association and the Textile Services Association included in evidence to us showed that at least half the membership of both organisations suggested a rate of around £3.50 per hour. As in security, some cleaning firms with fixed-price contracts may

experience a period of uncomfortable adjustment before increased costs can be passed on to clients. In total we estimate that the National Minimum Wage may affect around 90,000 employees in the security and cleaning sectors.

- 7.15 It is difficult to make accurate estimates of the numbers of *hairdressers* who may be covered by our recommendations. This is because the sector is small and the available statistics are limited. In addition, there are large numbers of 16 and 17 year olds and young trainees who are either not directly affected by the National Minimum Wage or can receive the Development Rate. Nevertheless, it is likely that the National Minimum Wage will significantly increase costs for smaller hairdressing salons. These firms are concerned about competition from the informal economy and so will restrict price increases as far as possible, but some increases may occur. Those salons operating a commission system or those which manage tips and gratuities through a centrally controlled system will be able to include these payments when complying with our recommendations. These factors may reduce unnecessary disruption to payment systems.
- 7.16 No comprehensive data exist for the *childcare sector*, hence we cannot quantify the numbers of workers who will be affected. We do, however, expect childcare costs to rise, particularly in private nurseries. The sector employs a large number of workers in the 18–20 age group who may receive the Development Rate, but we expect that this will temper the increases rather than remove them. We recognise that increased childcare costs could to an extent offset the extra income that a National Minimum Wage brings to many parents. We therefore welcome the Government’s commitment to a National Childcare Strategy which will help parents obtain affordable quality childcare.
- 7.17 Some 80,000 staff in the *social care sector* may be affected by the National Minimum Wage. Low pay is more prevalent in certain types of care home, however, and thus the impact will vary across the sector. For those run by local authorities, for many of the larger not-for-profit trusts, and for those able to charge higher fees (e.g. because of higher dependency patients), wage rates are already above our recommended rate. But some private nursing and residential homes, especially those with building debts, are likely to find the National Minimum Wage a challenge.

They are already operating in a market where rates are being squeezed through over-provision. Much will depend on the reaction of local authorities, which are the major purchasers of care services. We believe it is neither desirable nor sustainable for the sector to continue to operate on the basis of low wages for its staff. We welcome the Royal Commission on Long-Term Care for the Elderly, which is considering the options for a sustainable system of funding for long-term care.

- 7.18 The National Minimum Wage is likely to affect casual workers, who are employed in large numbers in *horticulture*. The minimum rate set by the Agricultural Wages Boards for casual workers is £3.21 in England and Wales from June 1998, with similar levels in Scotland. The number of casual workers varies throughout the year and it is difficult to make a precise assessment of the numbers covered. In any case, many casual fruit pickers and horticultural workers are on piecework, and their earnings actually exceed the minima set by the Agricultural Wages Boards. Since our definition for the National Minimum Wage includes piecework rates, this will reduce the impact on producers. The minimum rates set by the Agricultural Wages Boards for regular workers are well above our recommended National Minimum Wage. We estimate that fewer than 40,000 workers in agriculture will be directly affected by our recommendations.
- 7.19 The *clothing and footwear industry* employs an estimated 40,000 workers below our recommended rate. The sector has been contracting for many years in the face of international competition, and many larger firms own production units in other countries. Our evidence suggests that the great majority of employees have average hourly earnings that would keep them above the National Minimum Wage because of piecework and other performance-related pay schemes which operate in this industry. Nonetheless, there will be some firms which pay less and face international competition based on labour costs at a small fraction of present UK levels. Survival for some firms will continue to be dependent on maximising their productivity, creativity and quality.
- 7.20 A firm may be affected by our recommendations directly through its own wage bill, through the responses of other firms, and through the way in which the low paid choose to

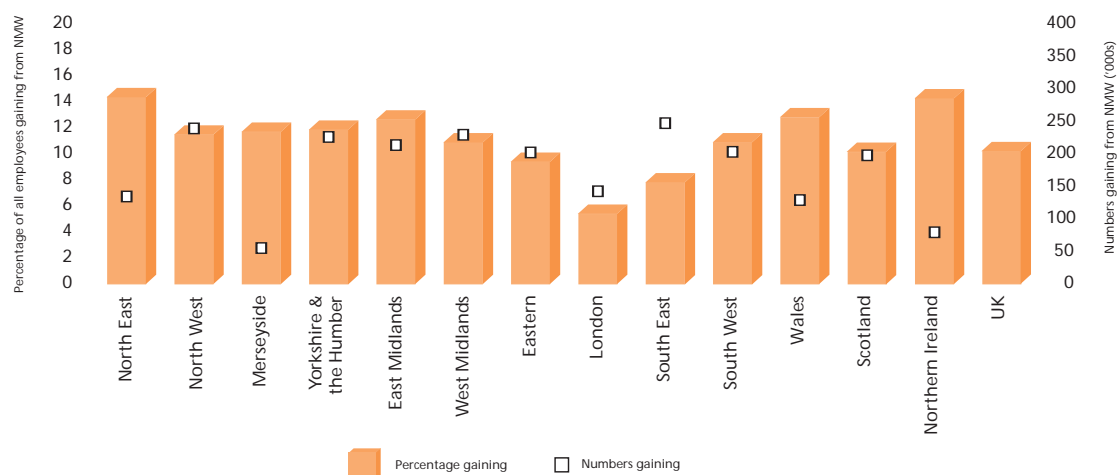
respond to any increased income. We asked Cambridge Econometrics to use their model of the economy to examine these complex interrelationships. For simplicity, they assumed that none of the extra income of the low paid would be spent on housing costs and that there would be no labour market adjustments as a result of our recommendations. They found that the impact of our recommendations on output and prices was negligible. There would be some small adjustment in prices. After three years, for example, our recommendations would raise the unit costs of production in clothing, retailing and business services by 0.7 per cent. This further supports our belief that our recommendations will generally have very little impact on businesses' ability to compete.

Geographical Impact

7.21 Low pay occurs in every part of the UK. The impact of the National Minimum Wage will vary, however, from region to region and between areas within regions, as the incidence of low pay is significantly affected by local factors, such as concentration of business sectors. Figure 7.4 indicates our assessment of the extent to which workers will be affected by the National Minimum Wage in each region.

Figure 7.4

Impact of National Minimum Wage by Region



Source: LFS, Autumn 1997

‘A rate of £3.00 per hour to £3.50 per hour would be unlikely to have major effects on employment or differentials. Such a rate would eradicate the worst cases of low pay and in-work poverty without creating damaging job losses, which would increase out-of-work poverty.’

Northern Ireland Economic Council (1998)

- 7.22 In reaching our recommendations, we paid particular attention to the consequences for the regions with the highest proportions of low pay. In the North East, for example, unadjusted LFS figures show that about 130,000 workers, or 14 per cent of the employed workforce in the region, will directly gain an increase in earnings from the National Minimum Wage. The region has seen a massive decline in heavy manufacturing over the past two decades, and increased reliance on service sector jobs, where the National Minimum Wage will have most effect.
- 7.23 Wales has a lower level of average full-time earnings than any other government region in Great Britain except the North East. We estimate that here again about 130,000 workers, which is 13 per cent of the employed workforce, should experience a rise in wages. These too are likely to be concentrated in the service sectors, with hospitality and tourism of particular importance.
- 7.24 We estimate that at most 80,000 employees in Northern Ireland will be directly affected by the National Minimum Wage. Although there is a relatively high proportion of workers employed in the public sector, where the impact of the National Minimum Wage will be slight, there is also a large proportion of workers in Northern Ireland who are low paid. Just over 14 per cent should receive increases through the National Minimum Wage. The clothing and textile industry accounts for half of the manufacturing base in Northern Ireland, and is subject to fierce international competition. National agreements in the textile industry indicate, however, that many companies in this sector will be able to accommodate a National Minimum Wage at the level we recommend. The expert evidence of the Northern Ireland Economic Council reassured us that a minimum no greater than £3.50 per hour (based on 1997 survey data) would not have damaging consequences for jobs.
- 7.25 At 10 per cent of the employed workforce, the coverage in Scotland is close to the UK average. However, as was shown in Chapter 3 (Table 3.4), of those travel-to-work areas with more than 20 per cent of workers paid below the National Minimum Wage rate, over half are in Scotland. There will therefore be a larger impact in certain areas, particularly in the Highlands and Islands.

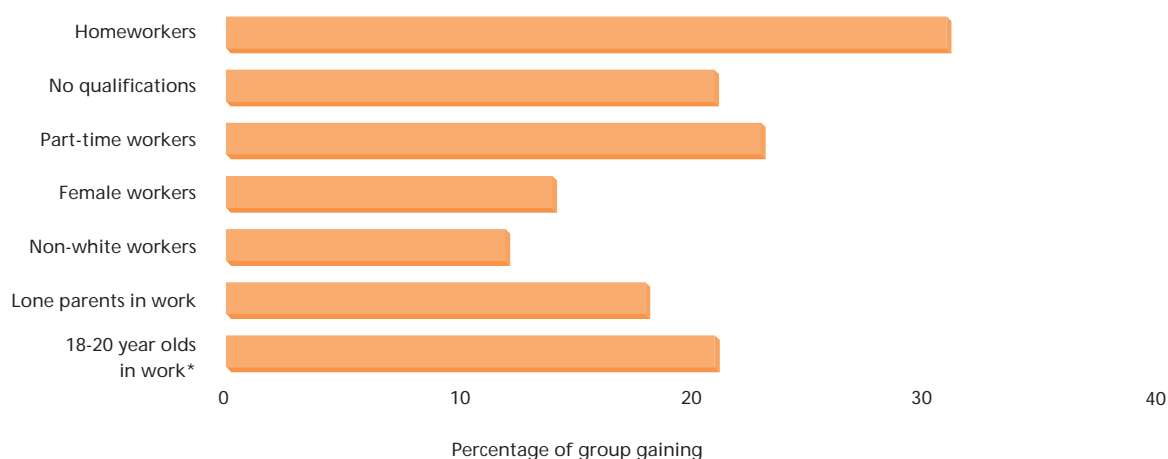
7.26 Average pay in London and the South East is higher than elsewhere in the UK. There are nevertheless large numbers who are poorly paid in these regions. There will be around 400,000 workers in these two regions who will directly benefit from the National Minimum Wage. We estimate that about one-fifth of all those in the UK who will benefit from the introduction of the National Minimum Wage will be in London and the South East.

Workers Who Benefit Most

7.27 The number of people affected by the National Minimum Wage at the level we have recommended will be substantial. Our assessment is that around two million people will be directly helped. For various groups, Figure 7.5 demonstrates the proportion who will gain from the National Minimum Wage. The people most likely to gain are those who have experienced a relative decline in their pay over the 1980s and 1990s: female part-time workers, young people, and those employed in unskilled manual and personal services occupations. A third of homeworkers, and nearly one-fifth of lone parents in work, will directly benefit from the National Minimum Wage. Over ten per cent of ethnic minority workers will benefit.

Figure 7.5

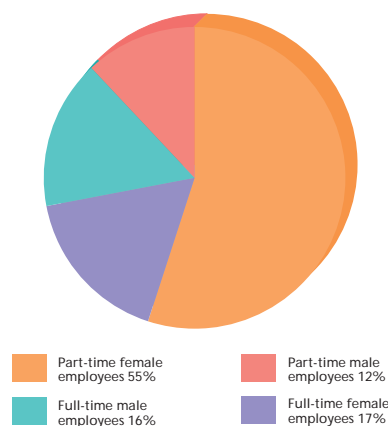
Groups Gaining from the National Minimum Wage



Source: LFS, Autumn 1997 except * – ONS central estimate

Figure 7.6

Make-up of Groups Gaining by Sex and Employment Status



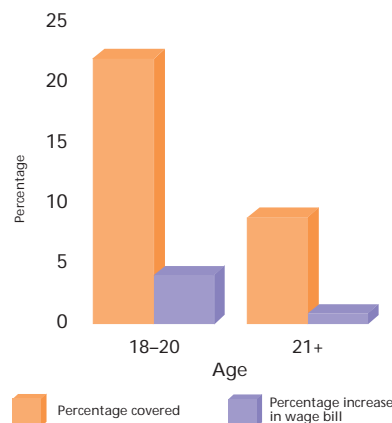
Source: Based on ONS central estimate method, Spring 1997

7.28 The National Minimum Wage will directly boost the pay of around one and a half million women by, on average, over a quarter. Over a million of these are part-time workers. Despite raising the incomes of many women by a large amount, the National Minimum Wage will have a very much smaller effect on their total wage bill. We estimate, for example, that the total wage bill for the whole female part-time cohort will rise by less than three per cent, substantially lower than the consequences of the Equal Pay Act of 1970.

7.29 The National Minimum Wage at the Development Rate we have recommended will have a significant impact on the incomes of many young people. By moving to our recommended Development Rate around a quarter of a million people aged 18–20 years will see their wages rise, on average, by close to one-third. Our recommendations will help to mitigate the trend of the relative decline of youth earnings. Once again the impact on the total wage bill of this group will be relatively slight, four per cent at most.

Figure 7.7

Impact of National Minimum Wage with Corresponding Increase in Wage Bill, by Age



Source: Based on ONS central estimate method, Spring 1997

7.30 The National Minimum Wage will also generate substantial wage rises for people in unskilled manual occupations. Some 300,000 of them will receive an increase in their wage. This will moderate the longer-term decline in their relative pay. It will also combine with reforms announced in the March 1998 Budget – such as the Working Families Tax Credit – to improve work incentives for the many unskilled people not in work.

7.31 Similarly over 600,000 junior non-manual workers, such as sales assistants and office clerks, will see their wages rise as a result of the National Minimum Wage. In addition, 400,000 personal service workers, particularly those employed in catering and the social care and childcare professions, and 600,000 skilled and semi-skilled manual workers will experience pay increases. Once again these gains will have minimal effect on the overall wage bill.

7.32 These groups are not static, but movement from low-paid work to better-paid work is limited. A Department of Social Security survey (Ball and Marland, 1996) showed that of those men aged 25–45 who were in the lowest decile of earners in 1978/79, well over half were still in the lowest decile in 1992/93. For some, therefore, the National Minimum Wage will have long-term benefits.

7.33 There are large and continuing flows between unemployment and work, and that work tends to be low paid. Stewart and Swaffield (1997b), for example, found that those individuals who were unemployed in any one year who entered employment in the next period were much more likely to be in low-paid employment. Hence the National Minimum Wage will be of immediate benefit to those in low-paid employment as it is introduced, but also to many who are currently unemployed who are likely to move into low-paying jobs. This will be especially true if, as we believe, the National Minimum Wage encourages unemployed people to find work.

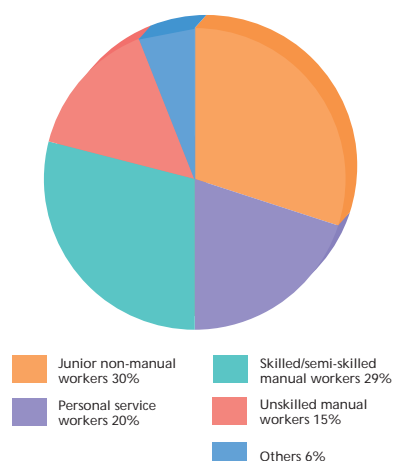
Effects on Incomes

7.34 Many commentators have expressed a concern that the National Minimum Wage will have only a minor impact on the *incomes* of the lowest paid because of the way it will interact with the tax and benefits systems. This overstates the issue. Most of those who will benefit from the National Minimum Wage do not receive in-work benefits. This means that in the majority of cases workers will gain the full amount of the increase in their pay, except for deductions for tax and National Insurance.

7.35 For those on benefits, the reforms announced in the March 1998 Budget will help in the transition from benefit income to earned income. The Working Family Tax Credit will be introduced from October 1999, replacing Family Credit, and will be payable through the wage packet from April

Figure 7.8

Make-up of Groups Gaining from National Minimum Wage by Socio-economic Group



Source: LFS, Autumn 1997

2000. It will boost the incomes of low- and middle-income working families, especially those with childcare costs. The level at which the Working Family Tax Credit will start to be withdrawn as income increases will be higher than for Family Credit and the rate of withdrawal will be significantly lower.

- 7.36 The impact of these budget reforms varies with family circumstances. Regardless of the National Minimum Wage, a lone parent working part time with two children aged under eleven with modest childcare costs would benefit from these reforms by £6.24 a week if paid at an hourly rate of £3.50. A married couple with one earner and two children might benefit by over £16 a week. We fully recognise and welcome the direction of the Chancellor's reforms. We have recommended a rate for the National Minimum Wage which underpins the overall policy of making work pay.
- 7.37 Table 7.2 shows the impact of the move to £3.60 per hour on the earnings of individuals in a household who were previously paid £3.00 per hour. The figures also assume the new tax and benefits regime as proposed by the Chancellor in the March 1998 Budget.

Table 7.2

Impact of the National Minimum Wage on Typical Low-paid Households		
Household	Pre-NMW net income (£)	Post-NMW net income (£)
Single person aged 18	98	103
Lone parent – 2 children	181	184
Married couple – 2 children – 1 earner	207	214
Married couple – 2 children – 2 earners	121	137

Note: Figures expressed are weekly net incomes.

- 7.38 For those in receipt of benefits, not all of their wage increases will be offset by the withdrawal of benefits and deductions for tax and National Insurance. Thus for many employees in receipt of in-work benefits, the National Minimum Wage will not only substantially increase their earnings, but also increase their total income, albeit marginally.

At the Bede Community School in Gateshead we met Pauline. She was a single parent with two children. She had been unemployed for eight years, but was just about to start a full-time job, which, once her benefits were reduced, would leave her only £12 a week better off. Despite all the complexity of arranging childcare and juggling wages and benefits, she was excited about the challenge of work: 'It's not just the extra money. It's doing something for yourself. It's something to build on later. I see it as a long-term benefit'.

Low Pay Commission Visit to Tyneside

- 7.39 The National Minimum Wage will have a significant effect in reducing inequality of income among working families. Even for those in receipt of benefits, we believe that there will be a real gain when income comes more from earnings than from benefits. As we were told by the National Council for One Parent Families, 'the advantage of replacing benefit income with earned income is real; it helps workers move out of the poverty trap'.**

Conclusion

- 7.40 We can only give estimates of the numbers of people affected by the National Minimum Wage and their likely earnings, because the recommended implementation date is some time off and official data do not offer a significantly accurate assessment even of the current state of the labour market. Based on the data available and our understanding of the labour market, however, we have been able to demonstrate that the introduction of the National Minimum Wage will help a large number of the most vulnerable groups of workers, but at a relatively small overall cost to business. We are confident that our recommendations will be shown to be prudent, yet will make a difference to the earnings of some two million low-paid workers across the UK.**

8 Implementing and Enforcing

Employers and workers have argued strongly that the National Minimum Wage must be implemented and enforced effectively. Some businesses have already started to prepare for its introduction, but they will need further time to adjust their pay rates once the level is announced. The National Minimum Wage should commence from April 1999. The timescale allows for the necessary preparation and distribution of clear information and advice to businesses and employee organisations. Although the emphasis should be on self-enforcement of the National Minimum Wage, an enforcement body (perhaps the Contributions Agency and Inland Revenue when combined) should be appointed to ensure compliance. Enforcement will be assisted if employers are required to demonstrate compliance with the National Minimum Wage on pay slips. Employers should also be encouraged to display details of the National Minimum Wage prominently in the workplace. Finally, the implementation, enforcement and impact of the National Minimum Wage should be carefully monitored and evaluated to inform future periodic reviews.

8.1 A recurrent theme during our consultations was that the National Minimum Wage must be implemented and enforced effectively to be successful. If businesses do not understand its implications, they cannot make sensible and positive adjustments to implement it. If the National Minimum Wage is not enforced properly, then unscrupulous employers may gain an advantage over reputable ones, and the most vulnerable workers will not be protected. So although the implementation and enforcement of the National Minimum Wage are not specifically mentioned in the Low Pay Commission's terms of reference, we have had to address the evidence we received on this issue.

8.2 We also received a range of views on monitoring and uprating the National Minimum Wage. Effective monitoring will help ensure the quality of future reviews.

‘Enforcement of the Minimum Wage is critical in order to ensure that a black market does not arise.’

Business Services Association Evidence

It will also increase the confidence of both employers and employees in the National Minimum Wage. Hence we have also considered monitoring and evaluation.

- 8.3 Our suggestions on enforcement accord with the principles of better regulation: they are transparent, accountable, targeted, consistent and proportionate. Enforcement measures should be effective while keeping burdens on business to a minimum. It is important to distinguish between those measures which should be a *requirement* for employers as minimum standards, and those which should be *encouraged* as voluntary best practice. We believe that the Government's development and implementation of detailed enforcement measures would benefit from consultation with the Better Regulation Task Force.

Preparation

‘In order for employers to adjust their pay structures and systems ready to comply with the Minimum Wage, the CBI recommends that a twelve month phasing in period is specified. This should commence from the date the level of the NMW is announced.’

Confederation of British Industry
Evidence

‘With reference to the pending minimum wage legislation the [pub and restaurant chain Whitbread Inn's 1998 pay] increase was weighted towards the company's 27,500 adult employees to set the trained rates at between £3.50 and £3.90 an hour.’

- 8.4 A reasonable period needs to elapse between the Government's announcement of the level of the National Minimum Wage and its application. Companies need sufficient time to make detailed preparation. In considering what is sufficient time, we have borne in mind that many companies are already aware that the Government intends to introduce a National Minimum Wage in the near future.

- 8.5 The report we commissioned from Incomes Data Services (IDS) shows that some larger businesses and public sector organisations at least are already anticipating the introduction of the National Minimum Wage (see Appendix 9). Some are restructuring pay scales, including abolishing the lowest rates on pay spines, and some are giving proportionately higher pay rises to the lowest-paid staff. The Textile Services Association, which represents small as well as large companies, reported in its evidence that 62 per cent of companies responding to a membership survey had already taken some form of action in preparation for the National Minimum Wage. In many cases they awarded larger increases to the lowest paid so that the expected legal minimum would be met by 1999 or earlier. Time for preparation will also assist any organisations whose pay structures may be affected by our recommendations on the definition of the National Minimum Wage.

- 8.6 Wages are not the only issue for which preparation is required. Information systems and appropriate business strategies need to be in place. Where they have not already done so, firms will need to begin discussions with employees, customers, contractors and suppliers as soon as possible about the implications of the National Minimum Wage.
- 8.7 Training and Enterprise Councils (TECs), Business Links and trade associations have considerable scope to help with new training and business strategies. They could help smaller firms – in particular through helplines, personal advisory services and explanatory literature – as part of their work of improving training and competitiveness. In its written evidence, the TEC National Council described plans for TECs and Business Links to look specifically at strategies which address the impact of the National Minimum Wage on smaller firms and individuals.

Implementation

- 8.8 No single implementation date would be ideal for all companies in all sectors. Many companies have annual pay negotiations and some begin negotiations many months ahead of the new pay year. Different companies have different pay rounds and implement pay rises on different dates. The two busiest months for settlements (according to IDS data) are April and January, but they take place throughout the year (IDS, 1998c). Some companies are bound by contracts with clients that will limit their ability to pass on costs for some years. Our aim is to suggest an implementation date that makes sense to the broad mass of businesses affected.

The Torbay Tourism Forum expressed concern about the timing of implementation. Tariffs for the following year are normally published by Christmas, so the National Minimum Wage would need to be announced in sufficient time to be taken into account in the setting of tariffs.

Low Pay Commission Visit to Torbay

‘Given the strong links between TECs and employers and contractual arrangements with training providers TECs are strategically placed to advise and influence employers and providers. Many of the small businesses that are most likely to be impacted by the introduction of the National Minimum Wage will already have a working relationship with their local TEC/CCTE or Business Link.’

TEC National Council Evidence

‘In those sectors involving work forces paid at the lower end of the wage scale, there was concern over unfair competition from those competing employers who failed to comply. One view was that information on the NMW in the work place would be sufficient to encourage employees to ensure compliance. For others, there was a division of views as to whether compliance should be self-regulated through intra trade association agreements or through an external authority established for the purpose. The latter could raise particular apprehension amongst smaller businesses over bureaucratic and cost burdens.’

Scottish Industry Forum Evidence

‘International experience tends to support the argument that if introduced with care the NMW should be largely self-enforcing.’

- 8.9 **We recommend that the National Minimum Wage should commence in April 1999.** Provided the Government makes an early decision on the initial rate, we believe that our recommendation on the timescale for introducing the National Minimum Wage provides a reasonable period for companies to adapt and take it into account in pay negotiations. We recognise, however, that our recommendation implies some changes to the Agricultural Wages Boards’ timetables for next year, since, for example, Orders on uprating for England and Wales are usually negotiated by mid-April and are effective from the first Sunday of June.

Enforcement

- 8.10 In written evidence to the Commission, both employers and employees emphasised the significance of effective enforcement of the National Minimum Wage. Many businesses said that they were prepared to support a National Minimum Wage provided it was subject to fair and effective enforcement. They were concerned that enforcement should create a level playing field without creating excessive bureaucracy. Its mechanisms should be simple and fit easily into normal business practice so as not to burden business. Employees and advisory bodies such as the Citizens Advice Bureaux also emphasised the need for effective enforcement. Organisations differed, however, on how efficient and effective enforcement could best be achieved.

Self-Enforcement

- 8.11 Since the National Minimum Wage is by definition national, rather than sectoral, workers are likely to be aware from the media of their entitlements. We have kept the definition of the National Minimum Wage as simple as possible to assist enforcement. Indeed, a number of organisations expressed the view that, if kept simple, the National Minimum Wage would be largely self-enforcing. Self-enforcement will also be facilitated if there is provision for anonymous reporting of non-compliant employers. Otherwise, despite the protection provided in the National Minimum Wage Bill and the reversal of the burden of proof of compliance, some employees will perceive the risks of reporting their employer to be too high.

- 8.12 A range of organisations suggested that the National Minimum Wage should be printed on pay slips and that pay should be detailed in such a way that compliance with the National Minimum Wage is clear. Since the law already requires certain information to be provided on pay slips for employees, and the National Minimum Wage Bill envisages pay records being maintained, we believe that requiring employers to record the hourly National Minimum Wage rate on pay slips and details to show compliance would not be an undue burden. By its self-enforcing nature the measure has the capacity to reduce other enforcement burdens on business.
- 8.13 We are aware that some employers do not even meet their current statutory obligation to provide pay slips to their employees and therefore would not welcome the proposal. The National Association of Citizens Advice Bureaux observed in its evidence that ‘the failure of employers to provide adequate pay statements is an extremely widespread problem. This failure is particularly problematic where employers are not meeting their obligations in respect of the pay due to employees’. Homeworkers have told us that they often do not receive the pay slips to which they are entitled. We suggest that the enforcement agency (described below) should pay particular attention to enforcement of the National Minimum Wage for homeworkers, including the provision of pay slips that demonstrate compliance.
- 8.14 A National Minimum Wage will not of itself solve the many employment problems of employees. Nevertheless, broad awareness of the National Minimum Wage may increase workers’ understanding of their rights to basic wage information from their employer. Although existing laws do not require those workers who are not legally defined as employees to receive a written pay statement, the National Minimum Wage Bill provides powers for the Government to put in place regulations that give all workers the right to a written statement. **We recommend that employers should be obliged to display on pay slips both the National Minimum Wage and details to enable workers to confirm readily whether they have received the statutory minimum.** A suggested best-practice example of a pay slip providing such information is included in Appendix 12.

‘The most successful Minimum Wages are those that are national in scope, universal in coverage and simple in form. One of the greatest problems with the wages council system was that the orders were complex and the limited resources of the Wages Inspectorate made non-compliance a viable option for many employers.’

Trades Union Congress Evidence

‘The hourly rate should be included on itemised wage slips and widely advertised in the media.’

UNISON Evidence

‘All employees should be aware of the NMW rate.... The best way of ensuring this, and assisting enforcement, could be for pay slips to include the relevant details which make up the NMW.’

Brewers and Licensed Retailers Association Evidence

Enforcement Agencies

We met a trained horticultural worker who worked full-time in a nursery in Shropshire. Under the Agricultural Wages Board, he was entitled to a minimum of £4.12 per hour. He only received £3.50 per hour, and he knew of untrained colleagues who received as little as £2.50 per hour. In order to enforce his rights he would have to go to an Industrial Tribunal and he believed that this would 'make my working life hell'. He thought that there should be a means of reporting his employer anonymously.

Low Pay Commission Visit to Shropshire

‘A CAB in Hertfordshire reported a client who was employed as a hairdresser. She had a verbal contract for weekly pay of £50. She had been employed for 21 weeks, but had not received any pay slips. For six of those weeks the client was paid £25 per week or less, and for the remaining weeks no wages had been paid at all.’

National Association of Citizens Advice
Bureaux Evidence

- 8.15 In addition to self-enforcement, there is clearly a role for proactive as well as reactive enforcement. The National Association of Citizens Advice Bureaux argued in evidence that there are limitations to any system of rights that leaves the burden of enforcement entirely on the individual worker or on groups of workers. In the informal economy in particular, it is unlikely that all workers not being paid the National Minimum Wage will take action even if there is provision for anonymous reporting. Proactive enforcement needs to be carefully targeted, covering those organisations least likely to comply rather than simply those most easy to reach. Many of those seeking not to comply will be firms on the fringes of the formal economy.
- 8.16 We do not see the Wages Council Inspectorate as a model for the enforcement of the National Minimum Wage for two reasons. First, Wages Council Orders were detailed, prescriptive and difficult to understand and interpret. Second, representatives of those sectors formerly covered by Wages Councils told us that enforcement procedures were not wholly effective. Although Orders had to be displayed in the workplace, employees had little awareness of their rights and, outside of unionised workplaces, little communication occurred with employees about new Orders.
- 8.17 We see strong efficiency arguments for using an existing agency to enforce the National Minimum Wage. An effective means of enhancing enforcement would be to use an agency which has a nationwide infrastructure capable of handling this new work, understands how business operates, is familiar with pay issues, and already deals with and inspects all types of firms. Targeted checks on compliance with the National Minimum Wage could take place alongside compliance checks on other pay-related

issues. Using an established agency would also address the concern of firms, particularly smaller ones, that the enforcement mechanism of the National Minimum Wage should be effective but not overly bureaucratic.

We therefore recommend that an existing government agency should be asked to take on the responsibility of verifying employers' compliance with the National Minimum Wage. The body chosen would need both to react to complaints and to carry out targeted investigations as part of its work.

- 8.18 The Government could consider a number of agencies. Against our criteria, we believe that the Contributions Agency would seem to be particularly suitable, especially as it is to be combined with the Inland Revenue in April 1999. It analyses payroll data and, for benefit-fraud reasons, checks for apparent payment of abnormally low wages. It has compliance investigation teams, allied to fraud teams, which can investigate employers without a PAYE scheme, including those without a payroll. Caseworking staff also have an enforcement role. We therefore conclude that the Government should carefully consider the case for appointing the Contributions Agency as an enforcement body for the National Minimum Wage. There may also be an important role for other bodies, such as local authority inspectorates, in referring suspected cases of non-compliance to the enforcement agency.
- 8.19 As explained in Chapter 5, we expect that our recommendations on a Development Rate should be self-enforcing. But there is a need, particularly in the first instance, for some simple verification mechanisms. These can be developed in the period before the National Minimum Wage is introduced.

Enforcement by Communication

- 8.20 The National Minimum Wage Bill stipulates that the Government should publish the relevant regulations and enforcement rights in a manner appropriate to those affected by them. Effectively communicating the National Minimum Wage and its implications to employers, employees and their advisers is a fundamental part of implementation and enforcement. Communication needs to be simple, clear and carefully targeted. At the same time, it should be sufficiently comprehensive to address issues

‘While the aim should be a self-regulating system, the LPC and Government may wish the comfort of an external monitoring system, which would be best carried out by an existing agency such as the Contributions Agency or Inland Revenue as part of their normal visits programme to employers.’

Hairdressing Employers Association Evidence

‘Local authority involvement would enable enforcement of the national minimum wage at a much more local level than the need to refer to the Inspectorate or the taxing authorities.’

UNISON Evidence

‘The field staff of the NI Contributions Agency could undertake a monitoring role.’

Local Government Association/
Local Government Management Board Evidence

‘We also propose... that NMW publicity be translated into community languages and widely publicised.’

National Group on Homeworking Evidence

‘Employers should be required to post notices in the workplace, containing specified information concerning the NMW.’

GMB Evidence

‘Company annual reports should give visibility to the incidence of the Minimum Wage. The Directors’ Report should be required to state the minimum hourly, weekly or monthly wage for a full-time (or full-time equivalent) employee.’

Austin Mitchell MP, Jim Cousins MP,
Prof. Prem Sikka and
Prof. Hugh Willmott Evidence

such as the Development Rate, record keeping and benefits-in-kind. It needs to reach linguistic minorities and all types of workers and employers across all business sectors.

- 8.21 The organisations to which businesses and their employees routinely turn for information and advice should also be consulted on the material required for guidance. These include Citizens Advice Bureaux (and other voluntary organisations), trade unions, Business Links, employers’ associations, trade associations and local authorities.
- 8.22 Many people also suggested the use of posters similar to those for health and safety, displayed prominently in the workplace, as a way of ensuring employees understand their entitlements. The proposal would be particularly helpful for casual workers, who may be less in touch with the labour market and less likely to hear of their entitlements from trade unions. Details on display could also explain how to seek more information and report non-compliant employers. We believe that this proposal is useful, but we need to be mindful of the need to keep regulation on business to a minimum. The simplicity of the Minimum Wage and its national application means that employees should be aware of their entitlement to it from other sources. We are therefore not convinced the proposal should be a statutory requirement, but **we recommend that employers should be encouraged to display details of the National Minimum Wage prominently in the workplace.**
- 8.23 Stating compliance with the National Minimum Wage (and possibly the number of employees at the lowest pay rate in the company) in annual accounts might be a useful means of companies reflecting the importance of compliance with the National Minimum Wage. We are not convinced, however, that this measure should be a legal requirement. It would have only limited impact as an enforcement measure as many workers are employed by unincorporated businesses which are not required to prepare annual accounts, and small companies are exempt from audit. Nevertheless, we suggest that the Government should consider how the proposal might be promoted as an aspect of good corporate governance.
- 8.24 If employers clearly stated the National Minimum Wage in their terms of employment, this would ensure that employees with written contracts understood their

entitlement from the start of their employment and that employers accepted their responsibility to comply. It would also help ensure awareness of the National Minimum Wage for homeworkers. We appreciate that as employers are not obliged to display all employees' rights on terms of employment, businesses might find the proposal inconsistent and bureaucratic as a statutory requirement. If applied voluntarily, however, we believe the measure would be simple and effective. We suggest that the Government should consider how employers might be encouraged to adopt this measure as best practice.

Monitoring, Evaluation and Review

- 8.25 Since setting the National Minimum Wage is more a matter of judgment than precise calculation, we cannot be absolutely sure of its impact at any given level. Hence, although we must ensure progress in tackling low pay, we must also proceed prudently. It is our unanimous view, shared by many whom we consulted, that the Commission should have a continuing role in the development of the National Minimum Wage. Its impact needs to be carefully monitored in order to inform both future re-setting and other policy-making by Government that affects the labour market. The Government also needs to be informed as to whether implementation and enforcement are effective.
- 8.26 If the National Minimum Wage is to be effective as a floor on wages, and in complementing other measures to reduce in-work poverty and protect vulnerable workers, it must be periodically reviewed. It should not be allowed to wither on the vine. Hence **we recommend that there should be a review of the National Minimum Wage, in the first instance, within two years of its introduction, to examine its initial impact and to assess its future level, definition and possible exceptions.** More immediately, for the impact of the National Minimum Wage to be monitored effectively, we need to establish a better picture of the current labour market. Hence research needs to begin now to establish a baseline against which future changes in the labour market can be monitored.
- 8.27 We suggest that this initial monitoring should cover a wide range of issues, focusing on sectoral and small firms' responses, take-up of the Development Rate and evaluation of training, the use of the accommodation deduction, the

‘NMW should be clearly stated in terms and conditions of employment.’

Law Centre, Northern Ireland Evidence

‘Seeing the NMW as a “process” and not just a set formula is crucial here since it carries with it the important notions of participation, learning and development.’

Transport and General Workers' Union Evidence

‘If the NMW is to contribute to the closing of the gender gap, effective monitoring will be essential. An effective mechanism should be introduced at the outset and the availability of the required statistics ensured.’

Equal Opportunities Commission
Evidence

impact on pay structures and differentials, and the impact on young people’s pay and employment. The effect on the pay and employment of women, ethnic minorities, people with disabilities, voluntary sector workers and volunteers also needs to be monitored. In addition, we should consider the impact on industrial relations issues related to the National Minimum Wage (for example, cases brought before industrial tribunals), on compliance with the National Minimum Wage and on the effectiveness of enforcement bodies and legal sanctions.

- 8.28 We suggest two main complementary approaches to monitoring and evaluation: improving statistical data and the gathering of evidence. Current official earnings data provide a useful starting point for monitoring and evaluating the National Minimum Wage. It is clear, however, that none of the available sources can be used as the definitive reference. The Office for National Statistics (ONS), other government departments and researchers should build on the work currently being undertaken to reconcile official earnings estimates. No less importantly, tangible improvements should be made to both main sources to provide a more accurate measure of low pay. We welcome the work being undertaken by ONS which has already made a number of recommendations, and we suggest further work in Appendix 2.
- 8.29 As well as the Commission’s own analysis of labour market data, studies are likely to be carried out by academics, government departments, pressure groups, trade unions, employer bodies and others which will assist future work. Interested parties should be encouraged to undertake research and submit written evidence to the Low Pay Commission.
- 8.30 Meeting employers and workers throughout the country for discussion was a fundamental part of our work for this report. Such consultation can provide the kind of frank, anecdotal feedback which other studies may not. Hence we believe it is essential from the outset that the monitoring and review process should include meetings with employers, workers, and their representatives, as well as with academics, pressure groups and others.

Conclusion

- 8.31 The National Minimum Wage must be seen to be fair if it is to inspire confidence. Effective preparation, implementation, enforcement and monitoring are all vital parts of achieving this goal. Clear and comprehensive guidance has to be made available to employers and workers through those organisations to which they routinely turn for help. Enforcement must be effective, be seen to be effective, and work with the grain of current business practices as far as possible. An agency already in operation, such as the Contributions Agency, should be responsible for ensuring compliance through proactive and reactive work. In order to maintain confidence in the National Minimum Wage and its future uprating, its impact must be thoroughly monitored and evaluated.

9 Conclusion

- 9.1 This Commission has brought together employer and employee representatives and academics to reach consensus on the National Minimum Wage through social partnership. Our recommendations form a coherent package, which is designed to support a competitive economy. To achieve this goal we have focused on how the National Minimum Wage can support training and skills enhancement. We have taken a prudent approach to choosing the initial rate, to find the balance between improving low pay and avoiding damage to efficient businesses and to employment opportunities.
- 9.2 The definition of the wage mitigates the impact of the rate on particular sectors. Policies towards young workers and trainees must be judged in the context of the general effects on particular sectors, on low-paid workers and on the economy as a whole. The likely impact on jobs, on inflation, and on small firms, which the Government asked us to consider, can only be assessed in the context of the whole package, including an understanding of when it is most appropriate to introduce the National Minimum Wage and how it should be enforced.
- 9.3 While our recommendations are detailed, we believe they are straightforward. We have tried to accommodate diverse pay structures and systems, and to allow employers and workers scope to agree systems that meet the National Minimum Wage. Good publicity should enable a high degree of self-enforcement, supported by a role for an existing enforcement agency.
- 9.4 The introduction of the National Minimum Wage must also be seen in the context of other government reforms that aim to make work pay. It complements and underpins the New Deal and the tax and benefits reforms announced in the March 1998 Budget, for example, and should be monitored alongside their further development. These reforms, together with the National Minimum Wage, will tackle working poverty and help people move from welfare to work. The National Minimum Wage will also have the positive effect of reducing the subsidy to inefficient employers who are able to pay low wages, knowing that the taxpayer will top up incomes through the benefits system.

‘Exclusion is the greatest risk accompanying the opportunities of the new economic era. Significant numbers of people lose their hold first on the labour market, then on the social and political participation in their community.’

Dahrendorf et al. (1995)

- 9.5 The working poor are not the poorest in our society. The poorest households are those which have no paid work at all. We believe that a National Minimum Wage set at our recommended level can help create a labour market where the unemployed can more readily move into jobs. For those seeking work, the incentive to find a job is often limited by the derisory low wages on offer, uncertainty about in-work income and the difficulties of getting back on to unemployment benefits if the job proves short term.
- 9.6 Poverty wages cannot encourage people to move from benefits to work. Such wage levels encourage feelings of detachment and alienation. We were struck by a comment made to us in Northern Ireland, and echoed in other visits, that the low paid were often on ‘the margins of degradation’. We hope that our recommendations will play some part in giving workless households and those in low-paid employment more opportunities to participate fully in the economic and social life of society. The introduction of a statutory floor for wage levels must encourage feelings of belonging not to the margins, but to the mainstream of society.
- 9.7 We are introducing a pay *floor*, not a pay policy. A *minimum* wage should never be regarded as a ‘going rate’ for pay. Successful employers who achieve higher value-added in their products or services will continue to be able to pay well above this floor. For the first time, however, a minimum wage that is genuinely national in its coverage is to be introduced in the UK. The role of the National Minimum Wage is to help remove the worst cases of exploitation and encourage improved efficiency, performance and investment in staff. We have deliberately recommended a rate for the National Minimum Wage which in our judgment will not cause any substantial job losses, and which will create opportunities for unemployed people to take up work and for those in work to develop their skills and for businesses to improve productivity and competitiveness.
- 9.8 Our recommendations for introducing the National Minimum Wage offer progress in raising the wages of the lowest paid, with a prudent approach that will avoid adverse effects on business and the economy. This must be a continuing process with periodic uprating to ensure that the benefits of the National Minimum Wage continue to be felt well into the new millennium.

Appendix 1

Consultation

We are grateful to all the people and organisations that helped us by providing oral and written evidence, and by organising or participating in visits and meetings. All organisations which participated, and gave their consent for us to publish their names, are listed below according to the nature of their contribution.

Formal Oral Evidence to the Commission

Agricultural Wages Board for England and Wales
 Amalgamated Engineering and Electrical Union
 Belfast Unemployed Resource Centre
 Brewers and Licensed Retailers Association
 British Apparel and Textile Confederation
 British Chambers of Commerce
 British Hospitality Association
 British Retail Consortium
 British Youth Council
 Business in Sport and Leisure Ltd.
 Business Services Association
 Cleaning and Support Services Association
 Commission for Racial Equality
 Confederation of British Industry
 Confederation of British Industry Northern Ireland
 Convention of Scottish Local Authorities
 Equal Opportunities Commission
 Federation of Small Businesses
 Federation of Small Businesses (Scotland)
 General Assembly Committee on Church and Nation (Church of Scotland)
 GMB
 Hairdressing Employers Association
 Independent Care Organisations' Network
 Independent Healthcare Association
 Joint Care Council
 Local Government Association
 Local Government Management Board
 Low Pay Unit Research Trust
 National Advisory Council on Employment of People with Disabilities
 National Association of Citizens Advice Bureaux
 National Council for One Parent Families

National Council for Voluntary Organisations
 National Hairdressers' Federation
 National Youth Agency
 Northern Ireland Anti-Poverty Network
 Northern Ireland Association of Citizens Advice Bureaux
 Northern Ireland Committee of the Irish Congress of Trade Unions
 Northern Ireland Council for Voluntary Action
 Retail Trade Alliance
 Scottish Council of Voluntary Organisations
 Scottish Trades Union Congress
 Trades Union Congress
 Transport and General Workers' Union
 Unemployment Unit and Youthaid
 Union of Shop, Distributive and Allied Workers
 UNISON
 UNISON (Northern Ireland)

Written Evidence to the Commission

Abbeyfield Dulwich Society Ltd.; London
 Action of Churches Together in Scotland
 Action with Communities in Rural England
 Age Concern England
 Alliance of Independent Retailers
 Allied Domecq Retailing Ltd.; Burton on Trent
 Allison, Rev. Roy; Devon
 Amalgamated Engineering and Electrical Union
 Angel International plc
 Angus, Mr Rea; Aberdeen College
 Armstrong World Industries Ltd.; Teesside
 Associated Liver Launderettes Ltd.; Liverpool
 Association for Health Human Resource Management
 Association for Residential Care
 Association of British Travel Agents
 Association of Charity Officers
 Association of Chartered Certified Accountants
 Association of Convenience Stores
 Association of Direct Labour Organisations
 Association of Electricity Producers
 Association of Independent Museums
 Association of Leading Visitor Attractions

Association of Licensed Multiple Retailers
Association of London Government
Association of Pharmacy Technicians United Kingdom
Association of Recognised English Language Services
Bakers, Food and Allied Workers' Union
Banking Insurance and Finance Union
Barker, J. J. Ltd.; Kent
Barton, Mr Donald; Hampshire
Barwise, Professor Patrick; London Business School
Bass Taverns Ltd.; Birmingham
Baxter, J. L. and Son; Kent
Bazen, Dr Stephen; University of Bordeaux
Belfast Unemployed Resource Centre
Bell, Professor David; University of Stirling
Berry, J. H. and S. C. Ltd.; Kent
Biscuit, Cake, Chocolate and Confectionery Alliance
Black, Dr Boyd; The Queen's University of Belfast
Boyce, Mr Mark; West Yorkshire
Boywood Farm; Dorset
Bramleys Nurseries; Oxfordshire
Breach, G. W. and Sons; Kent
Brewers and Licensed Retailers Association
Brice, W. and Son Ltd.; Kent
British Activity Holiday Association Ltd.
British Actors Equity Association
British Agricultural and Garden Machinery Association
British Apparel and Textile Confederation
British Association of Hotel Accountants
British Association of Removers
British Chambers of Commerce
British Dental Association
British Federation of Care Home Proprietors
British Footwear Association
British Holiday and Home Parks Association Ltd.
British Horseracing Board
British Hospitality Association
British International Freight Association
British Medical Association
British Printing Industries Federation
British Red Cross
British Resorts Association
British Retail Consortium
British Sandwich Association
British Security Industry Association
British Shops and Stores Association
British Sports and Allied Industries Federation
British Vehicle Rental and Leasing Association
British Youth Council
Bromley Centre for Voluntary Service
Brooke-Smith, Mr Alan; Stoke on Trent
Brookford Retail Ltd.; Berkshire
Brown, Mr N. J. N.; Essex
Budleigh Salterton and District Chamber of Commerce
Burger King Ltd.; Middlesex
Burgess, Mr Paul; Lancashire
Business in Sport and Leisure Ltd.
Business Services Association
Butler Brothers (Marden); Kent
Byford International Company; Middlesex
Calemcal Ltd.; Lancaster
Campaign Against Domestic Violence
Camplehay Residential Home; Plymouth
Care Forum Wales
Carlton House Retirement Residence; Exeter
Carroll, Mr Tony; London
Catchpole, Mr M. J.; Suffolk
Catholic Bishops' Conference of England and Wales
Central London Law Centre
Chamberlain, Mrs Miranda; Kent
Charing Cross Hospital; London
Charities Advisory Trust
Charity Commission for England and Wales
Chartered Society of Physiotherapy
Chatsworth Residential Home; Plymouth
Chesterfield Citizens Advice Bureau
Child Poverty Action Group (Northern Ireland)
Childminders (Babysitting Service); London
Childminding Association (Northern Ireland)
Children's Society
Church of England Youth Service
Church of Scotland, Board of Social Responsibility
Cinema Exhibitors' Association
Citizen's Income Trust
City of Edinburgh Council

Cleaning and Support Services Association
 Commission for Racial Equality
 Committee of Scottish Clearing Bankers
 Commonwealth Youth Exchange Council
 Communication and Youth Workers' Union
 Community Matters
 Confederation of British Industry
 Confederation of British Industry (Northern Ireland)
 Confederation of British Wool Textiles Ltd.
 Confederation of Shipbuilding and Engineering Unions
 Construction Confederation
 Construction Employers' Federation
 Construction Industry Council
 Consumer Credit Association
 Convention of Scottish Local Authorities
 Cooriedoon, The Isle of Arran Nursing Home
 Cornerways Residential Hotel for the Elderly; Devon
 Council for Voluntary Action
 Council of Local Education Authorities
 Country Landowners Association
 Courtaulds Textiles plc
 Crofters Commission
 Crossman, Mr Alf; Thames Valley University
 Croydon Trade Union Council
 Cumbria House Residential Care Home; Folkstone
 Dairy Industry Federation
 Daley, Mr Robert; Edinburgh
 Daniels, Mr M.; Buckinghamshire
 Davison Catering Ltd.; Dorset
 Dawlish Gardens Trust; Exeter
 Daycare Trust
 Derbyshire County Council
 Dickens, Dr Richard, Professor Stephen Machin and
 Professor Alan Manning; Centre for Economic
 Performance, London School of Economics and
 Political Science
 Dickinson, Dr Julie; Birkbeck College, London
 Dorking Riding Centre Ltd.; Surrey
 Duffy, Mr Andrew; West Glamorgan
 Durham Heritage Centre and Museum
 Durnsford Lodge; Plymouth
 E. and W. R. Launderette Company Ltd.;
 Kingston upon Hull
 Earlyworld Nursery and Pre-School; Shrewsbury
 Electrical Contractors' Association
 Electrical Contractors' Association of Scotland
 Ellesborough House Residential Home for the Elderly;
 Suffolk
 Engineering Employers' Federation
 Engineering Employers' Federation Northern Ireland
 Association
 English Heritage
 Enterprise Ayrshire
 Equal Opportunities Commission
 Equal Opportunities Commission for Northern Ireland
 European Anti-Poverty Network – England
 Fairbridge (Supporting Inner City Youth Across the UK);
 London
 Fawcett Society
 Feder, Ms Beatrice; London
 Federation of Environmental Trade Associations
 Federation of Licensed Victuallers Associations
 Federation of Recruitment and Employment Services
 Federation of Small Businesses
 Federation of Small Businesses (Scotland)
 Federation of Small Businesses (Wales)
 FirstBus plc (now FirstGroup plc)
 Fleming, Mr John; Oxfordshire
 Food and Drink Federation
 Forde Abbey; Somerset
 Forth Valley Enterprise
 Forum of Private Business
 Fourayes Fruit Growers and Processors; Kent
 Fraser, Mr James; University of Paisley
 Freight Transport Association
 Further Education Development Agency
 Galloway, Mr F.; Barton upon Humber
 Gambica Association Ltd.; London
 General Assembly Committee on Church and Nation
 (Church of Scotland)
 General Federation of Trade Unions
 Gilbert, Ms Kay; University of Strathclyde
 GMB
 Golden Sunset Homes Trust; Felixstowe
 Goldrange Group; Kent
 Goode, Mr F. C.; Clwyd

Grampian Enterprise Ltd.; Aberdeen
Greater Glasgow Community and Mental Health Services NHS Trust
Greater Manchester Low Pay Unit
Green, Mrs B. M.; Devon
Hairdressing Employers' Association
Hampshire Care Association
Hampshire Domiciliary Care Association
Hancock, Dr Keith; Australian National University
Help The Aged
Her Majesty's Government
Highland Council; Inverness
Highlands and Islands Enterprise
Hill, Mrs Jane; Exeter
Hillberry Farm; Kent
Hoffman, Mr Maurice; London
Holt, F. T. and Son (Farms) Ltd.; Kent
Holtby, Mr W.; Humberside
Homeless Network
Horder, Mr N. T.; Hampshire
Horn End Nursery School; Stafford
Horticultural Trades Association
Hospital Farm; Kent
Hospitality Association, Northern Ireland
Hugh Lowe Farms Ltd.; Kent
Hughes, Mr Howard; London
Ice Cream Alliance
Incomes Data Services Ltd.; London
Independent Care Organisations' Network
Independent Food Retailers' Confederation
Independent Healthcare Association
Industrial Relations Services
Innisfree Rest Home; Devon
Institute for Fiscal Studies
Institute for Research in the Social Sciences
Institute of Directors
Institute of Employment Consultants
Institute of Payroll and Pensions Management
Institute of Personnel and Development
International Professional Security Association
Jarmuz, Mr S. J.; Gloucestershire
Jones, Mrs Eileen; Lancashire
Joseph Rowntree Foundation
Kelsey Brothers; Kent
Kenmar Products Ltd.; Bolton
Kingston upon Hull City Council
Labour Relations Agency
Laing and Buisson Ltd.; London
Lanarkshire Development Agency
Lancashire Association of Trade Union Councils
Lang, C. J. and Son Ltd.; Dundee
Leach, Mr Cyril; Middlesex
Leach, Mr Lawrence; Warwickshire
Leather Producers' Association
Leicester City Council
Lewis, Mrs J. M.; Worcestershire
Lilac Lodge; Lowestoft
Lincolnshire Association of Residential Care Homes
Linton DMC Ltd.; Teesside
Little Court Lodge Farm; Kent
Local Authority Caterers' Association
Local Government Association
Local Government Management Board; London
Loddington Farm Ltd.; Kent
London Borough of Hackney
London NHS Pay Club
Lorna House Residential Care Home; Torquay
Low Pay Unit; Belfast
Low Pay Unit Research Trust; London
Lubstree Park Farm; Shropshire
Mackie's Ltd.; Aberdeenshire
Malcolm Hurlston Corporate Consultancy; London
Mallet, Mr P. L. V.; Kent
Man of Ross Ltd.; Herefordshire
Manhattan Pizza Company; Wigan
Manor Farm; Kent
Manpower plc
Mardon House; Devon
McCafferty, Mr Terry; Merseyside
McLaughlan, Professor Eithne; The Queen's University of Belfast
McQueen Ltd.; Galashiels
Mechanical and Metal Trades Confederation
Mee, Mr Lawrence; Greater Manchester

Meetings Industry Association
 Mental After Care Association
 Millar, Professor Jane; University of Bath
 Mitchell, Mr Austin MP, Mr Jim Cousins MP,
 Professor Prem Sikka and Professor Hugh Wilmott
 Mon Reve Residential Home; Exeter
 Morris, Mr Hugh; London
 Motor Cycle Industry Association Ltd.; Coventry
 Motorola Ltd.; Glasgow
 Mount Ephraim Farms and Gardens; Kent
 Mr Lazenby's; Teesside
 MSF (Manufacturing, Science and Finance Union)
 Multiple Newsagents Association
 Murdoch and Allfrey Ltd.; Kent
 Murdoch, Mr James; Glasgow
 Museums and Galleries Commission
 Mushroom Growers' Association
 National Advisory Council on Employment of People
 with Disabilities
 National Association of Citizens Advice Bureaux
 National Association of Master Bakers
 National Association of the Launderette Industry Ltd.
 National Association of Youth and Community
 Education Officers
 National Care Homes Association
 National Centre for Volunteering
 National Childminding Association
 National Council for One Parent Families
 National Council for Voluntary Organisations
 National Council for Voluntary Youth Services
 National Council of Hotels Association
 National Farmers' Union
 National Farmers' Union of Scotland
 National Federation of Fish Friers Ltd.; Leeds
 National Federation of Fishermen's Organisations
 National Federation of SubPostmasters
 National Group on Homeworking
 National Hairdressers' Federation
 National Housing Federation
 National League for the Blind and Disabled
 National Local Government Forum Against Poverty
 National Market Traders Federation
 National Pharmaceutical Association
 National Schizophrenia Fellowship
 National Summer Fruits Ltd.; Kent
 National Trust
 National Union of Journalists
 National Union of Knitwear Footwear and Apparel
 Trades
 National Union of Mineworkers
 National Union of Rail, Maritime and Transport
 Workers
 National Union of Students
 National Youth Agency
 NHS Confederation
 Nightingale Group Ltd.; Stoke on Trent
 Norfolk and Waveney Training and Enterprise Council;
 Norwich
 Norfolk Residential Care Homes Association
 North West Community Network
 Northcliffe Retail Ltd.; Leicester
 Northern Ireland Amusement Caterers' Trade
 Association
 Northern Ireland Anti-Poverty Network
 Northern Ireland Committee of the Irish Congress of
 Trade Unions
 Northern Ireland Council for Voluntary Action
 Northern Ireland Economic Council
 Northern Ireland Economic Research Centre
 Northern Ireland Meat Exporters' Association
 Northern Ireland Public Service Alliance
 Nottinghamshire and Derbyshire Clothing and Textiles
 Association Ltd.
 Nursing Homes in Shropshire
 Oldhouse Ltd.; Colchester
 Organisation for Economic Co-operation and
 Development, Paris
 Oswald, Professor Andrew; University of Warwick
 Owens Court Farm; Kent
 Oxford Development Education Centre
 Paddington Law Centre; London
 Paper Federation of Great Britain
 Parkland House Residential Home; Exeter
 Pay and Workforce Research
 Peebles Hotel Hydro Ltd.
 Pencavel, Professor John; Stanford University

Pencoyd Court Farm; Hereford
Penton Homes Ltd.; Plymouth
Pierce, F. G. and Sons Ltd.; Kent
Pinewood Lodge Nursing Home Ltd.; Devon
Pinhay House Care Home; Dorset
Place, R. and J. M. Ltd.; Norwich
PlayBoard Ltd.; Belfast
Pool, J. and F. Ltd.; Cornwall
Pratt, Nunn and Partners; Portsmouth
Preston, Mr Ian, CBE.; Glasgow
Prince's Trust
Prison Officers' Association (North Regional Office); Leeds
Producers Industrial Relations Services Ltd.; London
Professional Footballers Association
Professional Garden Services; Cheshire
Project 2001 (Royal Society of Arts)
Provision Trade Federation
Purnell, Mr Chris; Kent
Puttick, Mr Keith; Staffordshire University
Rapaway Energy Ltd.; Solihull
Reading Borough Council
Redsell, T. G. Ltd.; London
Reed Personnel Services plc
Refugee Council
Registered Care Homes Association (West Sussex Branch); Worthing
Registered Nursing Home Association
Registered Nursing Home Association in Scotland
Residential Care Homes Trust
Restaurateurs Association of Great Britain
Retail Motor Industry Federation
Retail Trade Alliance
Road Haulage Association
Robert Mitchell Partnership; Kent
Rowland, L. and Company Ltd.; Wrexham
Royal Association for Disability and Rehabilitation
Royal Bank of Scotland plc
Royal College of Midwives
Royal College of Nursing
Royal National Institute for the Blind
Royal Society for Mentally Handicapped Children and Adults (MENCAP)
Rubery, Professor Jill; Manchester School of Management, UMIST
Rural Community Network (Northern Ireland)
Rural Development Commission
St Andrews House Residential Care Home for the Elderly; Devon
St Helens and Knowsley Care Homes Association
Sanyo Electric Manufacturing (UK) Ltd.; Teesside
Sapsford, Professor David; The Management School, Lancaster University
Save The Children
Sawyer, T. and Company; London
SCOPE
Scotch Whisky Association
Scottish Association of Citizens Advice Bureaux
Scottish Association of Master Bakers
Scottish Chambers of Commerce
Scottish Council for Voluntary Organisations
Scottish Dairy Association
Scottish Decorators Federation
Scottish Engineering
Scottish Fishermen's Federation
Scottish Grocers' Federation
Scottish Hydro-Electric
Scottish Industry Forum
Scottish Landowners' Federation
Scottish Licensed Trade Association
Scottish Low Pay Unit
Scottish and Newcastle Retail Ltd.
Scottish and Northern Ireland Plumbing Employers' Federation
Scottish Print Employers Federation
Scottish Salmon Growers Association Ltd.
Scottish Socialist Alliance
Scottish Software Federation
Scottish Tourist Board
Scottish Trades Union Congress
Scrase, Ms Jill; Staffordshire
Sense (The National Deaf Blind and Rubella Association)
Shanks, Professor R. G.; The Queen's University of Belfast
Share the Care; Lincoln
Sheaff, Dr Mike; University of Plymouth

Simkin, R. and M.; West Midlands
 Sisson, Professor Keith; Industrial Relations Research Unit, University of Warwick
 Sloane, Professor P. J.; University of Aberdeen
 Smith, Ms Barbara M. D., OBE; West Midlands
 Southbourne Residential Care; Torquay
 Southernhay Rest Home; Devon
 Southview Private Residential Home; Plymouth
 Spindles Farm; Essex
 Springfield Nursing Home; Isle of Wight
 Springfields Residential Home for the Elderly; Devon
 Stakis plc
 Standing Conference of Principal Youth and Community Officers
 Starkey's Fruit Ltd.; Nottinghamshire
 Stead, Mr Richard; Argyll
 Stevenson, Mrs Niki; Norfolk
 Student and Au-pair Association; Surrey
 Sussex Enterprise
 Sutherland, Ms Holly; Department of Applied Economics, University of Cambridge
 Szymanski, Dr Stefan; The Management School, Imperial College, London
 Tenant Farmers' Association; Reading
 Textile Services Association Ltd.; Harrow
 Theatrical Management Association; London
 Thoroughbred Breeders' Association; Suffolk
 Tourism South and West Wales
 Trades Union Congress
 Training Agencies Group
 Training and Enterprise Councils' National Council
 Training Consortium; East Sussex
 Transport and General Workers' Union
 Travelling Light; Cumbria
 Tullit, Mr Simon; Staffordshire
 Twyman, Mr H. W.; Kent
 Ulster Farmers' Union
 Union of Construction, Allied Trades and Technicians
 Union of Democratic Mineworkers
 Union of Independent Companies
 Union of Shop Distributive and Allied Workers
 UNISON
 UNISON (Northern Ireland)

United Kingdom Home Care Association; Hertfordshire
 United Road Transport Union; Manchester
 Universities and Colleges Employers Association; London
 Unquoted Companies' Group; West Midlands
 Veit-Wilson, Professor John; Department of Social Policy, University of Newcastle upon Tyne
 Voluntary Organisations Involved in Caring in the Elderly Sector (VOICES)
 Wales Tourist Board
 Warren Heath Residential Home; Ipswich
 Warrington, Mr J.; Essex
 Watkinson, D. G. and Partners; Kent
 Wealdplace Healthcare; Hull
 Weir Pumps Ltd.; Glasgow
 West, Mr R. J.; Surrey
 West Midlands Low Pay Unit
 West London Training and Enterprise Council
 Wey Street Farm Ltd.; Kent
 Wheldon, Peter Ltd.; Suffolk
 Whitbread plc
 Whitehorse Child Care Ltd.; Swindon
 Wilkin and Sons Ltd.; Colchester
 Wilkinson, Dr Frank and Mr Sanjiv Schdev; University of Cambridge
 Willington Branch Labour Party; Durham
 Wiltshire Registered Care Homes Association
 Winged Fellowship
 Wise Group Ltd.; Glasgow
 Wolverhampton, Bilston and District Trades Union Council
 Wood Will's Ltd.; Newton Abbot
 Working Men's Club and Institute Union Ltd.; London
 Wright, J. L. Ltd.; Kent
 Yorkshire and Humberside Low Pay Unit
 Youth Access
 Youth Exchange Centre
 Youth Hostels Association (England and Wales)

Visits and Meetings

The Commission would like to acknowledge the help of the following organisations in arranging its programmes of visits as well as the Government Offices for the Regions, the Northern Ireland Office, The Scottish Office and the Welsh Office. In addition, some of the organisations listed below have provided more general advice and assistance. The Commission is grateful to them all.

British Hospitality Association
Confederation of British Industry Wales
Confederation of Community Groups; Newry
Development Board for Rural Wales
Dunningsbridge Partnership; Liverpool
Edinburgh Chamber of Commerce
Federation of Small Businesses
Forum of Private Business
Greater Manchester Low Pay Unit
Highlands and Islands Enterprise; Inverness
Knitting Industries Federation
Lancashire County Council
Leicestershire Training and Enterprise Council
Lincolnshire Training and Enterprise Council
Liverpool Chamber of Commerce
Manchester City Council
National Hairdressers' Federation
National Institute of Economic and Social Research
National Private Day Nursery Association
North East Chamber of Commerce
North Liverpool Business Association
Northern Ireland Association of Citizens Advice Bureaux
Northern Ireland Committee, Irish Congress of Trade Unions
Scottish Association of Citizens Advice Bureaux
Scottish Trades Union Congress
Services Industrial Professional Technical Union; Derry
Smith, Mr Fernley, MBE (National Council of Hotels Association); Bath
Speke-Garston Partnership; Liverpool
Telford Council (now Telford and Wrekin Council)
Trades Union Congress (North West)

Training and Employment Agency; Larne
University of Greenwich
Wales Trades Union Congress
West Midlands Low Pay Unit
Wigan Borough Partnership
Yorkshire and Humberside Low Pay Unit

The organisations we met, which gave their consent to be listed, are:

ENGLAND

North (includes North East, North West and Yorkshire and Humberside)

Barnacle's Ltd.; Middlesbrough
Bede Community School; Gateshead
Blackwell Grange Hotel; Darlington
Bovis Construction Ltd.; Manchester
Bradford Chamber of Commerce
Central Manchester Healthcare NHS Trust
Citizens Advice Bureau; Newcastle upon Tyne
CREATE (Speke-Garston Partnership); Liverpool
Dewhirst Group plc; North Humberside
Eastbrook Court Jobcentre; Bradford
Employment Service Jobcentre; Middlesbrough
Federation of Small Businesses (North East Region); Newcastle upon Tyne
Forum of Private Business; Knutsford
Gateshead Voluntary Organisations Council
Greater Manchester Low Pay Unit
Greggs plc; Newcastle upon Tyne
Hardwick Tomorrow Ltd.; Cleveland
Hull and East Riding Chamber of Commerce (now the Small Business Club of Hull and East Riding Chamber of Commerce, Industry and Shipping)
Hull CityVision Ltd.
Humberside Careers and Guidance Services (now Humberside Partnership)
Indespension Ltd.; Bolton
Kenmar Products Ltd.; Bolton
Kingston upon Hull City Council
Lancashire County Council
Manchester City Council
Manchester TEC

National Group on Homeworking; Leeds
 Newcastle City Council
 North East Chamber of Commerce
 North Liverpool Business Association
 Pennywell Neighbourhood Centre; Sunderland
 Ragworth Regeneration Partnership; Stockton on Tees
 South Bank Womens Action Centre; Middlesbrough
 St Cecilia's Residential and Home Care Services;
 Scarborough
 Stockton and Thornby Task Force
 Swallow Hotels Ltd.; Tyne and Wear
 Trades Union Congress (NE Branch); Newcastle upon Tyne
 Trades Union Congress (NW Branch)
 Transport and General Workers Union; Bradford
 Tyneside Training and Enterprise Council
 Wigan Borough Partnership
 Yorkshire and Humberside Low Pay Unit

*Midlands (includes East and West Midlands,
 and Eastern Region)*

Association for Residential Mental Care; Norfolk
 Berwin and Berwin Ltd.; Leicester
 Birmingham Chamber of Commerce and Industry
 British Federation of Care Home Proprietors
 Bromhead Hospital; Lincoln
 De Montfort University School of Agriculture and
 Horticulture; Lincolnshire
 Guardian Care Nursing Homes; Stoke on Trent
 Leicester Outwork Campaign
 National Youth Agency; Leicester
 Norfolk Care Council
 Norfolk Registered Nursing Homes Association
 Norfolk Residential Care Homes Association
 Quantum Care Ltd.; Hertfordshire
 Stable Lads Association; Derbyshire
 Sweater Shop Ltd.; Leicester
 Trinity Care plc; Nottingham
 Turner and Jarvis Ltd.; Leicester
 Walsall NHS Hospitals' Trust
 West Midlands Low Pay Unit
 Yarmouth Stores Ltd.
 Youth Hostels Association (England and Wales)

South (includes South West, South East and London)

Barclays Bank plc; London
 Brice, W. and Son Ltd.; Kent
 British Apparel and Textile Confederation
 British Horseracing Board
 British Hospitality Association
 Business Services Association
 City Centre Restaurants plc
 Coast and Country Hotels Ltd. (now Shearings Hotels
 Ltd.); Devon
 Cornwall Care Ltd.
 Daycare Trust; London
 Devon, Cornwall and Isles of Scilly Agricultural Wages
 Committee
 East Kent Packers
 EBC Construction Ltd.; Exeter
 Economic and Social Research Council Research Centre;
 University of Essex
 Employment Policy Institute
 Engineering Employers Federation
 Federation of Small Businesses
 GMB
 Gregory, Ms Mary; Institute of Economics and
 Statistics, University of Oxford
 Gregory, Professor Jean; University of Middlesex
 Gripaios, Professor Peter; Plymouth Business School,
 University of Plymouth
 Group 4 Total Security Ltd.; Gloucestershire
 Independent Healthcare Association
 Institute of Directors
 John Lewis Partnership plc
 Lee Valley Clothing Industry Business and Design
 Centre; London
 Local Government Association
 Local Government Management Board
 Low Pay Unit Research Trust; London
 MIND; London
 National Childminding Association
 National Council for Voluntary Organisations
 National Council of Hotels Association; Dorset
 National Farmers Union
 National Federation of SubPostmasters
 National Trainers Federation; Berkshire

National Westminster Bank plc; London
NHS Confederation
Office Cleaning Services Group Ltd.; Surrey
Patronics International Ltd.; Plymouth
Perrys Restaurant; Dorset
Plymouth Task Force
Pre-school Learning Alliance; London
Remploy Ltd.; London
Rentokil Initial plc
Shaw Trust; Wiltshire
Southbrook Guest House; Dorset
Sutherland, Ms Holly; Department of Applied
Economics, University of Cambridge
Tesco plc; Cheshunt
Torbay Tourism Forum
Training and Enterprise Councils' National Council;
London
Transport and General Workers' Union
Trident Contract Services Ltd.; Essex
UNISON
Weymouth Hotel and Catering Association

NORTHERN IRELAND

Amalgamated Transport and General Workers' Union;
Ballymena
Ballybot Confederation of Community Groups; Newry
Ballymena Business Development Centre Ltd.
Belfast Unemployed Resource Centre
Buttercrane Shopping Centre; Newry
Derry City Council
East Belfast Citizens Advice Bureau
Equal Opportunities Commission for Northern Ireland
Greencastle Women's Group; Newtownabbey
Law Centre (Northern Ireland); Belfast
Newry and Mourne Enterprise Park
Northern Ireland Association of Citizens Advice Bureaux
Resource Centre; Derry
Services Industrial Professional Technical Union; Derry

SCOTLAND

Aquascot Group Ltd.; Alness
ATC Cosmetics Ltd.; Invergordon
Channings Hotel; Edinburgh

Citadel Couriers Ltd.; Edinburgh
Clydebank Unemployed and Community Resource
Centre
Country Sport Shop; Jedburgh
Crofters Commission; Inverness
Cross Keys Hotel; Peebles
Dundee Citizens Advice Bureau
Edinburgh Chamber of Commerce
Edinburgh Crystal Glass Company Ltd.
Ednam House Hotel; Kelso
Highland and Islands Enterprise
Mansfield House Hotel; Tain
Old Priory and Coach House (now Simply Scottish);
Jedburgh
Pertemps Caledonian Recruitment; Edinburgh
Rooff Fix Supplies Ltd.; Glasgow
Ross and Cromarty Enterprise
Scottish Association of Citizens Advice Bureaux
Scottish Council Development and Industry; Inverness
Scottish Trades Union Congress
Sood Enterprises Ltd.; Glasgow

WALES

Actia (UK) Ltd.; Newtown
Brain, S. A. and Company Ltd.; Cardiff
Capper and Company Ltd.; Pontyclun
Cardiff County Council
Elva Induction Ltd.; Newtown
Gold Finishes Ltd.; Cardiff
GRW Securities Ltd.; Swansea
Kotschy Associates; Swansea
Makefast Ltd.; Newtown
Mead Manufacturing; Pontypridd
OCS Cleaning Wales Ltd.; Cardiff
Peacock's Stores Ltd.; Cardiff
Royal Victoria Hotel; Llanberis
Setten and Durward; Llandrindod Wells
Transport and General Workers Union; Cardiff
Viskase Ltd.; Swansea
Westminster Health Care Ltd.; Clwyd
Woolworths plc; Swansea

Appendix 2

Official Data Sources

- 1 As our report demonstrates, we have made extensive use of official earnings data. These data have also been widely used by researchers, both inside and outside government, to examine the extent of low pay and to estimate the effects of a National Minimum Wage in the UK. Much of the evidence presented to us has focused heavily on estimates from national surveys.
- 2 Although each of these different sources has its uses, none provides a precise measure of the true level or composition of low pay. The estimates of low pay differ markedly between different surveys. Hence it is difficult to quantify with precision even the direct first-round impact of the National Minimum Wage on businesses and workers.
- 3 In assessing the effects of the National Minimum Wage, it is important that differences in low-pay estimates from each of these sources are understood. We have made a significant contribution to work undertaken by the Office for National Statistics (ONS) to reconcile differences in the two primary data sources, and together presented our initial work at a Labour Market Statistics User Group in March 1998. ONS has made further progress with this work (Wilkinson, 1998), and we summarise the current position in this appendix together with suggestions for additional improvements. We also present a discussion of how this work affects our assessment of the coverage and cost of our recommendations. We plan to produce a discussion paper later in the year that will cover, in some detail, the work we have undertaken to examine the problems associated with official data in respect of low pay.

Sources

- 4 The main data sources that have been used both inside and outside government to estimate the impact of a National Minimum Wage are summarised in Table A2.1 and we provide further details in the following paragraphs.

New Earnings Survey

- 5 The New Earnings Survey (NES) is a sample survey of the earnings of employees in employment in the UK. It is the only source listed that was designed with the explicit purpose of collecting earnings information: specifically, the levels, distribution and composition of earnings in all industries, occupations, and for employees covered by collective agreements. The survey has been carried out in April of each year since 1970 under the Statistics of Trade Act 1947.
- 6 The survey is based on a 1 per cent sample of employees, taking those whose National Insurance (NI) number ends

with a specified pair of digits. Around 90 per cent of the sample is identified by the Inland Revenue which provides lists of the relevant NI numbers and details of the employers of the relevant individuals using Pay As You Earn (PAYE) records. Although a large number of employees do appear in the survey despite having earnings below the tax threshold (equivalent to £77.79 per week in 1997) it is recognised that a significant proportion of low earners are excluded. In practice this means that there is a particular problem with estimates for people in part-time jobs in the private sector.

- 7 The identifying details of the remainder of the sample are obtained directly from large employers who provide information relating to all individuals with the relevant NI numbers in their employ. This sample will thus include employees not in a PAYE scheme.
- 8 The survey yields high quality data, taken directly from payroll records, that is not subject to recall errors or bias. The large sample size of around 160,000 cases allows reliable microeconomic estimates to be made, such as those for specific industries and small areas. It is also a useful source of information on the components of pay. Notwithstanding the survey bias, a large number of low-paid workers are covered and the NES can be considered an important tool in minimum wage analysis.

Labour Force Survey

- 9 The Labour Force Survey (LFS) can be used to examine a wide range of labour market behaviour, and provides internationally comparable estimates of employment and unemployment. The survey collects information from a nationally representative sample of 60,000 households, which is then grossed to allow population estimates to be calculated.
- 10 Since 1992 the survey has been conducted on a quarterly basis. Households remain in the survey for five consecutive quarters, the first interview being conducted face-to-face with subsequent interviews generally conducted by telephone. Questions relating to earnings were introduced in the Winter (December–February) quarter of 1992/93, initially for just one-fifth of the sample. This proportion was doubled in Spring 1997; the achieved sample is now around a tenth of the total NES figure.
- 11 Personal response is affected by problems of recall. Furthermore, around 30 per cent of responses are given by proxy, and this too affects the accuracy of replies. As a result, earnings estimates are artificially low. Unlike the NES, it is not possible to separate earnings into basic

Table A2.1

Summary of Income Data Sources											
Survey	Start date	Frequency	Sample size (achieved)	Employer/ Individual/ Household	Sampling frame	Personal characteristics	Limitations	Advantages	Net/gross	Benefits data	Other income
New Earnings Survey	1970	Annual	160,000 employees	Employer	Members of PAYE schemes	Limited	Under-coverage of part-time employees	Large sample size; reliable payroll data; panel element allows longitudinal analyses; link to other employer surveys	Gross	No	No
Average Earnings Index	1963	Monthly	8,000 firms	Employer	IDBR	No	Total pay period earnings figure only	Accurate measure of earnings growth	No	No	No
Family Expenditure Survey	1957	Annual	6,000 individuals	Individuals	Postcode Address File (PAF)	Yes	Small sample size	Other income information	Yes	Yes	Yes
Family Resources Survey	1993	Annual	25,000 individuals	Individuals	PAF	Yes	Bias in earnings estimates	Larger sample than other household surveys, income information	Yes	Yes	Yes
General Household Survey	1971	Annual	<10,000 individuals	Individuals	PAF	Yes	Small sample size	Wider range of personal characteristics	Yes	Yes	Yes
British Household Panel Survey	1991	Annual	10,000 individuals	Individuals	PAF	Yes	Decreasing sample size	Panel element allows longitudinal analyses	Yes	Yes	Yes
Inland Revenue Survey of Personal Incomes	1938	Annual	80,000 individuals	Individuals	Individuals with records held by IR offices	Yes	Under-coverage of low-paid employees	Large sample size	Yes	Yes	Yes
Labour Force Survey	Winter 1992/93	Quarterly	20,000 individuals	Individuals	Post Office sub-directory	Yes	Lack of precision in earnings and hours estimates	Wide range of labour market analyses	Yes	Yes	Yes

Official data sources

and other pay components, nor to provide disaggregated industrial or regional estimates to the same level of detail.

- 12 The frequency of the survey allows short-term changes to be tracked and earning patterns in seasonal industries to be highlighted. In addition, data are collected for a wide range of social characteristics that can be important determinants of earnings levels. Such information is generally not available through employer surveys. Most importantly, the LFS captures all types of employment. Consequently, overall low-pay incidence estimates derived from this source can be considered more accurate than those from the NES.

Family Expenditure Survey

- 13 The Family Expenditure Survey (FES) has been conducted since 1957 and is designed to obtain detailed information of household expenditure patterns and to provide the weights for the Retail Price Index. Each individual in participating households keeps diary records of expenditure for two weeks. Interviews are spread evenly throughout the year to ensure seasonal spending patterns are covered. The survey covers around 10,000 households with around two-thirds co-operating. This yields a sample of around 8,500 employees, roughly half of the number included in LFS earnings estimates.
- 14 Earnings data are collected, with greater emphasis placed on documentary evidence such as pay slips. Each individual member of a household keeps his or her own diary and so there are no significant difficulties with proxy response. Despite this, the survey suffers from some non-response bias and, to a lesser extent, to the recall problems associated with all household surveys. Furthermore, the survey is not principally geared to collect earnings per se, and detail is not available on a large number of wage determinants.

Family Resources Survey

- 15 The Family Resources Survey (FRS) was launched in 1992 by the Department of Social Security to supplement information traditionally provided by the FES. The FRS is a continuous survey, interviewing around 25,000 private households each year in Great Britain, and covers around 45,000 adults, of whom roughly half have paid jobs. Earnings questions are asked of all non-dependent adults aged 16 and over. Grossing factors have been derived which control for a number of demographic factors. These can be applied to sample estimates in order to represent the population as a whole.

- 16 The FRS is substantially larger than the FES and General Household Survey (GHS; see below), leading to greater precision in earnings estimates; proxy response is not allowed, further increasing precision. The survey has detailed benefits information that allows the income effects of a National Minimum Wage to be measured. There are problems with employment estimates, however, which introduce some degree of bias into earnings estimates.

General Household Survey

- 17 The GHS is conducted on a continuous basis with results reported over the financial year. The survey provides data on a wide variety of subjects not generally captured by other surveys. The sample is based on postcode addresses, with stratification across both regions and a number of economic indicators from the decennial census. The survey achieves around two-thirds response, although some of this is by proxy. In such cases earnings questions are omitted. The GHS allows an analysis of the interaction between earnings and other socio-economic factors such as those outlined above. The achieved earnings data sample is small, however, and it is not possible to generate detailed analyses.

British Household Panel Survey

- 18 The British Household Panel Survey (BHPS) is a panel survey run by the University of Essex Centre for Micro-economic Change, with the aim of furthering understanding of economic and social change. The survey began in 1991 and respondents are re-interviewed roughly once a year. The initial effective sample of 5,500 households yielded responses for around 10,000 individuals, of which half were in paid work.
- 19 Since it generates longitudinal data on income and detailed demographics, the principal value of the survey is in allowing analysis of the dynamics of low pay and the interaction with other factors over time. This is important since the labour market is continually changing. The effective sample size is smaller than the other surveys considered, however, making estimates less precise. Attrition of the sample over time will further reduce the amount of available data and it is likely that this attrition may be different across the earnings distribution, leading to bias in earnings estimates.

Table A2.2

Current Estimates of Low Pay (Spring/April 1997)				
Earnings less than:	LFS employees ('000s)	LFS % of employees	NES % of employees	Difference in % points
£2.50 ph	954	4.2	1.4	2.8
£3.00 ph	1,679	7.4	2.7	4.7
£3.50 ph	3,202	14.1	6.8	7.3
£4.00 ph	4,871	21.4	13.2	8.2
£4.50 ph	6,716	29.5	20.1	9.4

Source: LFS, Spring 1997; NES, April 1997

Survey of Personal Incomes

- 20 The Survey of Personal Incomes is carried out annually by the Inland Revenue. It is based on administrative information held in tax offices and collects data on income assessable to tax in the previous tax year. The survey covers about 80,000 individual tax records and is grossed to provide estimates of the taxpaying population.
- 21 The main purpose of the survey is to provide baseline estimates of tax revenues and the income and other characteristics of individual taxpayers, as an input to the tax models used to assess the impact of potential tax changes. The survey collects information on pay, subdivided into main and subsidiary sources, and on the number of weeks to which the main source pay data relate. It does not provide any disaggregation of earnings and has no information on hours worked.
- 22 The survey provides complete coverage of those individuals whose pay is above or close to the PAYE threshold. It will also include many people whose pay is below this limit, but a significant number of people on low rates of pay will be excluded. In particular, there will be incomplete coverage of those in casual or seasonal employment.

Monthly Wages and Salaries Survey

- 23 The ONS's Monthly Wages and Salaries Survey, from which the Average Earnings Index (AEI) is calculated, provides an important and timely measure of earnings movements. It is less useful in respect of low-pay analyses, as data are not available for individual employees.

Summary

- 24 Current estimates of low pay vary greatly from source to source. For example, the LFS estimate of the proportion of employees earning below £3.50 per hour is over twice

the NES estimate (Table A2.2). Other household survey estimates are closer to the LFS figure.

- 25 It is difficult, therefore, to obtain an accurate picture of the current level of pay in the UK. We have thus devoted considerable time, working closely with ONS and other government statisticians as well as consulting with the wider academic community, to produce our best assessment of the current incidence of low pay in the UK. We have focused our analyses primarily on the NES and LFS, and summary information on low pay from both sources is presented at Annex A. The NES is undoubtedly the primary source of earnings data in the UK, whereas the LFS is the only household survey that is geared principally to collect labour market information.

'The New Earnings Survey and the Labour Force Survey are the most appropriate surveys to be used in the analysis of low pay.'

Office for National Statistics, Correspondence with the Low Pay Commission (May 1998)

Bridging the Gap

Definitions

- 26 Although the key variable of interest in the examination of the impact of a National Minimum Wage is hourly earnings, neither the NES nor LFS explicitly collects this information. Data are instead derived from a pay period estimate of total gross earnings, which is then converted to a weekly equivalent and divided by an estimate of weekly hours. Direct comparisons of hourly earnings are made even more difficult through inconsistencies in the definitions of both earnings in the pay period and paid hours of work.

Table A2.3

Low-pay Estimates Above the PAYE Threshold						
Earnings less than:		£2.50	£3.00	£3.50	£4.00	£4.50
		per hour	per hour	per hour	per hour	per hour
		% of all employees				
Full-time	NES	0.6	1.4	3.3	6.8	11.7
	LFS	1.0	2.7	6.4	11.6	18.4
Part-time	NES	0.3	0.9	4.6	13.5	25.3
	LFS	0.1	1.4	7.3	16.1	28.8

Source: LFS, Spring 1997; NES, April 1997

Jobs/Employees

- 27 An important distinction between the main NES and LFS incidence estimates is that the NES figure is based on all jobs, while the LFS figure is for employees' main jobs only. But consistent estimates are available from both surveys. The reconciliation work that ONS has undertaken has focused on generating estimates from the LFS for all jobs. This increases the overall LFS incidence estimate slightly, further widening the gap between the two survey estimates.

Coverage

- 28 Certain types of jobs are more likely to be captured in the LFS than in the NES. Typically, these are jobs with shorter hours and/or lower pay. More specifically, these jobs are unlikely to be covered by PAYE. Clearly, these coverage problems will have an impact on earnings estimates from the two surveys. In relation to estimates of low pay, the impact is significant, as many of the jobs excluded from the NES are low paying. And as Table A2.3 shows, even for jobs above the PAYE threshold there are some differences between the survey estimates of low pay.

Proxy Response in the LFS

- 29 One reason for the discrepancy even above the PAYE threshold is the large amount of data in the LFS provided about individuals by other household members. Almost a third of responses relating to earnings information are collected in this way, with two-thirds of these responses coming from spouses or partners and the remainder from other household members. ONS has shown that proxy responses tend to understate earnings and consequently estimates of low-pay incidence are too high.

Measurement of Hours Worked

- 30 Analyses of proxy response also showed that weekly earnings estimates tend to be more precise than those for hourly earnings. In addition, LFS estimates of hours worked are generally somewhat higher than NES figures. ONS has therefore concluded that LFS hours may need to be decreased by as much as 4 per cent. Hourly earnings must therefore be increased by a similar amount, further reducing estimates of the incidence of low pay.

Summary of Reconciliation Work to Date

- 31 ONS has developed a methodology that can be used to improve low-pay estimates from each source. LFS estimates can be adjusted to take account of the bias inherent in proxy response and over-estimation of hours worked. NES data can be improved by supplementing the better quality data above the PAYE threshold with estimates below PAYE from the adjusted LFS. These adjustments generate upper and lower estimates of the incidence of low pay, as shown in Table A2.4. Without further work it is not possible to say with precision that the true level of low pay is nearer either extreme, and so the central points of these ranges are taken to be the best currently available.
- 32 There is still some considerable uncertainty about the true level of low pay. For example, looking at the range for employees aged 21 and over earning £3.50 per hour or less, the central estimate could represent an under- or over-statement of around a quarter of a million employees. This range is considerably less, however, than the difference between the unadjusted LFS and NES estimates previously available.

Table A2.4

Adjusted Estimates of the Incidence of Low Pay								
	18–20				21 and over			
	Lower	Upper	Central	Central	Lower	Upper	Central	Central
	% of employees			'000s	% of employees			'000s
£2.50ph	9.6	12.5	11.1	122	2.4	2.7	2.6	555
£2.60ph	11.7	14.9	13.3	147	2.8	3.2	3.0	640
£2.70ph	13.2	17.6	15.4	170	3.0	3.6	3.3	704
£2.80ph	14.8	20.0	17.4	192	3.4	4.1	3.8	811
£2.90ph	16.8	21.9	19.4	214	3.7	4.6	4.2	896
£3.00ph	18.8	23.7	21.3	235	4.1	5.1	4.6	981
£3.10ph	21.8	28.4	25.1	277	4.8	6.6	5.7	1,216
£3.20ph	25.0	32.1	28.6	315	5.7	7.4	6.6	1,408
£3.30ph	27.9	34.8	31.4	346	6.6	8.6	7.6	1,621
£3.40ph	30.2	38.3	34.3	378	7.4	9.6	8.5	1,813
£3.50ph	35.2	41.4	38.3	422	8.4	10.8	9.6	2,048
£3.60ph	38.6	44.9	41.8	461	9.6	12.5	11.1	2,368
£3.70ph	41.0	49.1	45.1	497	10.6	13.5	12.1	2,581
£3.80ph	44.9	53.1	49.0	540	12.0	15.2	13.6	2,901
£3.90ph	47.9	54.9	51.4	567	13.2	16.5	14.9	3,178
£4.00ph	51.0	58.4	54.7	603	14.6	17.7	16.2	3,455

Source: ONS estimates based on Spring 1997 LFS and NES data

Further Work

- 33 There is work we can undertake to make further improvements on the estimate. There may be some upward bias in NES earnings estimates even above the PAYE threshold through under-sampling of low-paid groups within the NES, as suggested by Hughes (1998). Our analyses have shown that these sectors make up a relatively small proportion of full-time employment, however, and corrective grossing is unlikely to have a significant impact on overall incidence estimates.
- 34 It is less clear whether there is additional bias within industries; this will occur if non-response is concentrated in low-paying firms in these sectors. This seems possible in view of the low response from small businesses, where there is a higher incidence of low pay. From our examination of NES sampling fractions, it is clear that businesses with fewer than 20 employees are under-represented, even above the PAYE threshold.
- 35 The drawing of the NES sample some weeks before the survey reference period also leads to the exclusion of employees who have recently moved jobs. We demonstrate in Appendix 10 that labour turnover is most prevalent amongst certain groups such as part-time

workers, women, the young and the unqualified. These groups are also more likely to be low paid. Hence, under-sampling of job movers may further bias earnings estimates.

- 36 Absence from work may also affect earnings. All employees whose pay is affected by absence are excluded from the NES analyses in our report. Although it is possible to identify some employees in the LFS whose pay is lower than usual, it is difficult to relate this specifically to absence. Failure to identify employees in the LFS whose pay has been reduced as a result of absence may lead to further downward bias in earnings estimates.
- 37 As described in paragraph 26, hourly earnings in the LFS (and NES) are derived from a pay period estimate of gross earnings and an estimate of weekly hours of work. The LFS measure of hours used in this calculation is for 'usual hours of work' although an alternative measure of 'actual hours of work' is also collected. It is possible that the concept of 'actual hours' is more useful in the context of the National Minimum Wage. Actual hours of work are less than usual hours of work although the difference is less obvious when absence is taken into consideration.

- 38 Another reason for downward bias in LFS earnings estimates may be the exclusion of bonus payments from gross earnings. We have demonstrated in our report, however, that additions to basic pay for low-paid employees are relatively slight. Hence the impact of this bias on low-pay incidence estimates is also likely to be small.
- 39 ONS has already shown that there is a degree of uncertainty around the adjustments made to the LFS to generate the revised estimates shown in Table A2.4. The 'central' adjustment to usual hours worked used by ONS could be considered too low, however, if actual hours were used instead of usual hours worked, or if bonus payments were considered. Further adjustments to the LFS would decrease the central estimate of low-pay incidence. On the other hand, if NES biases were also considered in the adjusted series, such as the exclusion of small businesses, it is possible that a central estimate of low-pay incidence would increase. Thus, on balance, the suggested range does not appear unreasonable and we use the 'central estimate' as our best assessment of the current incidence of low pay.
- 40 There is a great deal more work for ONS and others to do, however, before we can be confident of quantifying low pay accurately. We hope to contribute significantly to improvements in this field over the coming months. We also hope to make recommendations for improvements in the two main statistical surveys, geared specifically towards assessing the impact of the National Minimum Wage accurately, when it is introduced.

Earnings Distributions and Coverage of the National Minimum Wage

- 41 We have recommended that certain pay components should be excluded from the calculation of the National Minimum Wage. Hence many of the employees earning slightly above our recommended initial rate on an all-earnings basis will earn below that level if only basic pay and incentive pay are considered. Employers may also take advantage of our recommendation on the Development Rate to provide accredited training for older workers. Both these considerations mean that we must look beyond simple earnings distributions to estimate the impact of the introduction of the National Minimum Wage.

Definition of the National Minimum Wage

- 42 The actual number of low-paid workers that receive shift and overtime premia is relatively small, although the value of such premia to these workers can be significant. We estimate that, on average, shift and overtime premia could be worth at most 15 pence per hour to employees earning below the recommended National Minimum Wage level. This figure does, however, need to be seen in context.
- 43 The extent to which our choice of definition will change the numbers directly affected by our recommendation depends on how far employers consolidate existing premia into basic rates. Consider, for example, one employee earning a basic hourly rate of £3.00 with a shift premium of 10 per cent; total hourly earnings are thus £3.30. This employee would benefit from our recommended rate of £3.60 per hour whether or not we included shift premia in our definition. The employer could respond by stopping shift premia payment in which case hourly earnings would be £3.60 at April 1999. Alternatively, if the premia element were retained at its current level, the employee would receive hourly earnings of £3.96.
- 44 We cannot disaggregate LFS earnings estimates into the necessary components, but the NES can be used to examine the effect of our definition. ONS suggested that the best approach was to compare two distributions of earnings: first, the distribution of total earnings comprising all components of pay, which is used throughout our report; and second, the distribution of earnings using a definition which excludes shift premia and overtime payments. The gap between the two distributions depends on the level of earnings but is not significant in the range in which we are interested. For given coverages the difference between the two distributions is generally less than 5 pence per hour. ONS thinks it is likely that even this figure is an upper estimate of the effect of the exclusion of premia payments as those employees not sampled by the NES are less likely to be in receipt of premia payments. In summary, the adjusted gross earnings distribution used in this report to assess coverage is considered by ONS to be a valid guide to the numbers directly affected by the National Minimum Wage.

Development Rate

- 45 It is not possible to forecast accurately the impact of our recommendations on the use of the Development Rate for those employees on accredited training aged 21 or over. We have indicated in Chapter 5 that there are few reliable statistics on wage levels for those in training. We can, however, look at the numbers of low-paid older workers in employment for less than six months.
- 46 At Spring 1997 the LFS showed that there were around 200,000 such employees earning less than the deflated equivalent of our Development Rate (£3.00 per hour). They must be brought up at least to the Development Rate. At most, 150,000 new employees currently earn between £3.00 per hour and the April 1997 equivalent of our recommended level for the full National Minimum Wage (£3.40 per hour). They need not be brought up to the full rate if in receipt of accredited training. Each 10 pence band of the adjusted earnings distribution accounts for between 200,000 and 300,000 employees. So even if there was maximum take-up of the Development Rate, this would only reduce overall coverage to the levels equivalent to setting an earnings figure of around 5 pence lower than our recommended adult rate.
- 47 Both our recommendations on the definition of the National Minimum Wage and a Development Rate for adult employees can, therefore, be seen to have a relatively slight effect on overall coverage levels and largely to offset each other. Hence the ONS central earnings estimate can be used as the current best method in measuring coverage levels of the National Minimum Wage.

Comparative Measures

- 48 It is of interest to know how our recommended rate compares with other points on the earnings distribution, particularly the median. The problem is that the two main data sources provide very different estimates.
- 49 The figures that are most often quoted as a benchmark for median earnings are those for full-time male employees and for all full-time employees. The NES is the best source of information on full-time employees, and on these data, the April 1997 figures for median earnings are £8.24 and £7.70 per hour respectively. But these are estimates for Great Britain only and correspond to employees on adult rates of pay. If we consider Northern Ireland and employees on training and other rates of pay, the figures fall slightly to £8.16 for full-time male employees and £7.63 per hour for full-time employees.

- 50 These figures correspond to an all-earnings figure, however. Although our definition of the National Minimum Wage has little effect on coverage, those components which we have excluded are more important at higher points in the earnings distribution. Hence the median of the earnings distribution excluding components outside of our definition will be significantly reduced.
- 51 We can also calculate a median figure for earnings from the LFS before and after applying the central adjustments for proxy response and hours worked suggested by ONS. These are summarised with the other measures in Table A2.5. If we deflate our recommended rate for April 1999 to Spring 1997 prices as outlined in Chapter 7 of the report, we can see that, depending on the measure used, our initial rate corresponds to some 40 to 50 per cent of the median.

Table A2.5

Estimates of Median Hourly Earnings of all UK Full-time Employees Aged 18 and Over (£)				
	NES	NES excl. overtime and shift pay	LFS	LFS adjusted for proxy response and hours worked
Male	8.16	7.79	7.33	7.62
All	7.63	7.34	6.86	7.07

Source: NES, April 1997; LFS, Spring 1997

Estimating the Direct Cost of the National Minimum Wage

- 52 As well as estimating the number of employees directly affected by the National Minimum Wage, we also examined the overall cost of raising their pay. To do this we estimate the current wage bill by summing the weekly wages of all employees. The new weekly earnings for those employees directly affected is then calculated by multiplying the National Minimum Wage by their paid hours or work, which is added to the total pay of all remaining employees. The difference between this figure and the estimate of the current wage bill provides an estimate of the direct impact of the National Minimum Wage on the national wage bill. In effect, the calculation shows the rise in the Average Earnings Index that can be attributed to the National Minimum Wage, ignoring any possible restoration of wage differentials. It should be noted that this calculation considers direct salary costs only; additional labour costs are not included.

- 53 There are good reasons why the NES will provide a more reliable estimate than the LFS here. For example, if we supplement existing NES data with LFS data below the PAYE threshold, the calculation of the overall current wage bill is dominated by NES data because over 80 per cent of all employees are paid above the PAYE threshold. Similarly, the greatest cost in absolute terms will be incurred by employers who employ low-paid workers for long hours. Those who work longer hours are more likely to be above the PAYE threshold where the NES is a more reliable guide. In addition NES data are drawn directly from employers. They thus present a more accurate picture of the true business costs, subject to shortcomings with respect to coverage at the bottom of the distribution.
- 54 Taken together with the best estimate of the current wage bill, it is clear that the NES estimate of the wage bill effect is likely to be closer than the LFS figure. By supplementing existing NES data with LFS data below the PAYE threshold we generated an estimate of the direct cost of the recommended National Minimum Wage of 0.6 per cent on the current wage bill.
- 55 To verify this assumption we asked ONS to produce an illustrative example using Spring 1997 data for a National Minimum Wage of £3.50 per hour for all employees. This is only slightly higher than our deflated estimate of the initial rate (£3.40 per hour). Their assessment was that after imputing LFS information below the PAYE threshold to the NES, the overall increase in the wage bill was between 0.6 per cent and 0.7 per cent. Unadjusted NES and LFS estimates were 0.4 per cent and 1.1 per cent respectively. So the central estimate of the adjusted range is nearer the unadjusted NES figure. We note that the adjusted estimate is subject to a considerable degree of sampling error (see Annex B).
- need to consider information from other surveys, particularly the LFS. The ONS central estimate method is based on information in both the LFS and NES and can be considered the best currently available means of assessing the incidence of low pay. We use the ONS method for our macroeconomic assessment of the impact of our recommendations.
- 58 We have also generated estimates of coverage and cost by sex and employment status using a similar method. But a great deal more work needs to be done to derive adjusted detailed microeconomic estimates of the incidence of low pay. We thus use raw survey data for these estimates throughout our report, with the broad caveats associated with doing so.

Conclusion

- 56 No one survey can provide all the information necessary to analyse the impact of the National Minimum Wage, and each has its own strengths and weaknesses. For example, the NES can be used to examine detailed industrial and regional effects and the components of pay; the LFS is the most appropriate source of data on the general characteristics of low pay; while the FRS and FES can be used to analyse the impact of the National Minimum Wage on incomes.
- 57 The scale of the NES makes it the principal source of detailed earnings information but there is a problem with lack of coverage of part-time workers in low pay, and a

Annex A: NES and LFS Low Pay Data

- 1 We have demonstrated that the NES and LFS are the two most appropriate sources for analysing low pay. This annex presents information from the April 1997 NES and Spring 1997 LFS with brief discussion about inconsistencies across the surveys. General points about the data are as follows: all data relate to UK employees aged 18 and over; the LFS figures incorporate information from the increased sample but second job information is excluded; and NES analyses are for all employees on both adult and other rates whose pay for the survey period was unaffected by absence.
- 2 Table A2.6 shows low pay by sex and employment status. Part-time work is defined slightly differently in each survey. The NES uses a strict hours-based definition with employees who normally work less than 30 hours per week excluding overtime (25 in the case of teachers and academics) classed as part-time. The LFS uses self-classification although in practice the split is broadly similar.
- 3 Table A2.7 shows low pay by age. In general the NES restricts published analyses to employees on 'adult rates of pay' but here we show data for all employees. This allows a more consistent analysis across the two surveys.
- 4 Occupational descriptions in both the NES and LFS are coded to the Standard Occupational Classification. This is a hierarchical system built up of around 400 individual codes. Table A2.8 shows a comparison by the broadest grouping available – that by manual and non-manual occupations. Occupation is also the key determinant of socio-economic group which is used in some LFS analyses in the report.
- 5 Both surveys also use an identical system to code industry descriptions – the Standard Industrial Classification (1992). LFS industry descriptions are provided by individual respondents whereas the NES links employers to the Inter-Departmental Business Register (IDBR) administered by ONS which holds industry codes. This means that there may be some inconsistencies between the two surveys, particularly at a detailed industry level. Data are presented in Table A2.9 by SIC 92 sector and these are supplemented by charts showing the distribution of pay in low-paying sectors from the NES (Figure A2.1).
- 6 Since 1997 official data have been published for Government Office Regions. The LFS earnings sample is too small to produce reliable estimates for any smaller geographical areas although the NES allows reasonable estimates to be made for areas as small as parliamentary constituencies (Table A2.10).

Table A2.6

Incidence and Composition of Low Pay by Sex and Employment Status												
Earnings less than:	Male Full-time employees		Female Full-time employees		Male Part-time employees		Female Part-time employees		Male Full-time employees		Female Part-time employees	
	Numbers	Percentage	Numbers	Percentage	Numbers	Percentage	Numbers	Percentage	Numbers	Percentage	Numbers	Percentage
LFS, Spring 1997												
£2.50ph	200	171	283	1.8	9.9	2.8	6.2	27.3	10.7	23.4	38.6	
£2.75ph	272	228	421	2.5	13.8	3.8	9.3	26.4	10.6	22.1	40.9	
£3.00ph	338	317	571	3.1	16.8	5.3	12.6	24.9	9.7	23.3	42.0	
£3.10ph	405	393	766	3.7	23.7	6.5	16.9	23.1	10.7	22.5	43.7	
£3.20ph	453	434	848	4.2	25.8	7.2	18.7	23.4	10.5	22.4	43.8	
£3.30ph	505	504	995	4.7	27.9	8.4	21.9	22.7	9.9	22.6	44.7	
£3.40ph	569	559	1,105	5.2	31.5	9.3	24.4	22.9	10.0	22.5	44.5	
£3.50ph	656	630	1,219	6.0	33.5	10.5	26.9	23.7	9.6	22.7	44.0	
£3.60ph	750	738	1,406	6.9	36.2	12.3	31.0	23.6	9.0	23.2	44.2	
£3.70ph	836	788	1,500	7.7	37.5	13.1	33.1	24.4	8.6	23.0	43.9	
£3.80ph	930	895	1,659	8.6	41.6	14.9	36.6	24.4	8.6	23.5	43.5	
£3.90ph	1,026	974	1,791	9.4	43.5	16.2	39.5	24.8	8.3	23.6	43.3	
£4.00ph	1,114	1,044	1,872	10.3	44.5	17.4	41.3	25.4	8.0	23.8	42.7	
£4.25ph	1,411	1,316	2,218	13.0	51.8	21.9	48.9	26.4	7.6	24.6	41.4	
£4.50ph	1,719	1,572	2,454	15.8	56.1	26.1	54.1	27.8	7.2	25.4	39.7	
Total	10,863	789	6,015	100.0	100.0	100.0	100.0	48.9	3.6	27.1	20.4	
NES, April 1997												
£2.50ph				0.4	4.1	0.8	2.7	20.2	11.8	22.3	45.7	
£2.75ph				0.7	5.7	1.3	3.8	21.7	11.1	23.7	43.6	
£3.00ph				1.0	7.6	2.0	5.4	22.2	10.4	24.6	42.8	
£3.10ph				1.3	9.8	2.5	7.0	21.5	10.5	24.2	43.8	
£3.20ph				1.5	12.1	3.0	8.7	20.5	10.6	23.9	45.0	
£3.30ph				1.8	14.3	3.6	10.8	20.3	10.3	23.9	45.5	
£3.40ph				2.1	17.0	4.2	13.0	19.8	10.4	23.4	46.3	
£3.50ph				2.4	19.2	4.9	15.4	19.3	10.1	23.3	47.3	
£3.60ph				2.8	22.4	5.9	18.4	19.2	9.8	23.8	47.1	
£3.70ph				3.2	24.5	6.9	20.8	19.2	9.5	24.3	47.0	
£3.80ph				3.7	26.8	7.9	23.9	19.7	9.0	24.2	47.0	
£3.90ph				4.3	29.3	9.1	27.8	19.6	8.6	24.2	47.6	
£4.00ph				4.8	31.6	10.1	31.3	19.7	8.3	24.2	47.8	
£4.25ph				6.7	38.5	13.3	37.7	21.6	7.9	25.0	45.4	
£4.50ph				8.8	43.1	16.6	43.8	23.3	7.3	25.8	43.5	
Total				100.0	100.0	100.0	100.0	49.5	3.2	28.9	18.5	
Reads: 200,000 full-time male employees earn less than £2.50ph												
Reads: 1.8% full-time male employees earn less than £2.50ph												
Reads: Of those earning less than £2.50ph 27.3% are full-time male employees												

Table A2.7

Incidence and Composition of Low Pay by Age												
Earnings less than:	Numbers earning less than ('000s):				Percentage earning less than:				Of those earning less than percentage of:			
	18-20	21-25	26-29	30+	18-20	21-25	26-29	30+	18-20	21-25	26-29	30+
LFS, Spring 1997												
£2.50ph	163	94	57	419	14.9	3.8	2.3	2.6	22.2	12.8	7.8	57.2
£2.75ph	235	128	75	592	21.5	5.2	3.0	3.7	22.8	12.4	7.3	57.5
£3.00ph	281	193	97	788	25.8	7.8	3.9	4.9	20.7	14.2	7.1	58.0
£3.10ph	356	255	141	1,000	32.6	10.4	5.7	6.2	20.3	14.5	8.1	57.1
£3.20ph	373	292	163	1,111	34.1	11.9	6.6	6.9	19.2	15.1	8.4	57.3
£3.30ph	413	343	185	1,284	37.8	13.9	7.4	7.9	18.6	15.4	8.3	57.7
£3.40ph	457	384	207	1,434	41.8	15.6	8.3	8.9	18.4	15.5	8.3	57.8
£3.50ph	496	428	232	1,614	45.5	17.4	9.3	10.0	17.9	15.5	8.4	58.3
£3.60ph	540	480	269	1,891	49.4	19.5	10.8	11.7	17.0	15.1	8.5	59.5
£3.70ph	567	524	292	2,038	51.9	21.3	11.7	12.6	16.6	15.3	8.5	59.6
£3.80ph	612	586	328	2,285	56.1	23.9	13.2	14.1	16.1	15.4	8.6	59.9
£3.90ph	653	633	365	2,483	59.8	25.8	14.7	15.4	15.8	15.3	8.8	60.1
£4.00ph	683	680	385	2,633	62.5	27.7	15.5	16.3	15.6	15.5	8.8	60.1
£4.25ph	778	815	491	3,268	71.3	33.2	19.7	20.2	14.5	15.2	9.2	61.1
£4.50ph	840	960	564	3,824	76.9	39.1	22.7	23.7	13.6	15.5	9.1	61.8
Total	1,092	2,457	2,489	16,164	100.0	100.0	100.0	100.0	4.9	11.1	11.2	72.8
NES, April 1997												
£2.50ph					4.9	1.4	0.7	1.0	14.3	13.7	6.7	65.2
£2.75ph					7.9	2.1	1.0	1.4	15.5	14.4	6.8	63.3
£3.00ph					11.5	3.0	1.4	1.9	15.8	14.4	6.8	63.0
£3.10ph					14.6	4.0	1.8	2.5	15.7	14.9	6.7	62.7
£3.20ph					17.6	4.9	2.3	3.0	15.6	14.8	7.0	62.6
£3.30ph					21.1	6.0	2.8	3.7	15.3	15.0	7.1	62.5
£3.40ph					23.9	7.4	3.4	4.3	14.7	15.6	7.1	62.6
£3.50ph					26.6	8.6	3.9	5.1	14.0	15.6	7.2	63.2
£3.60ph					30.9	10.2	4.8	6.1	13.6	15.5	7.3	63.5
£3.70ph					33.7	11.5	5.5	7.0	13.1	15.4	7.4	64.1
£3.80ph					37.7	13.2	6.2	8.1	12.8	15.4	7.3	64.5
£3.90ph					41.0	14.8	7.2	9.4	12.1	15.0	7.4	65.6
£4.00ph					44.1	16.4	8.2	10.7	11.6	14.8	7.5	66.1
£4.25ph					52.8	21.3	10.7	13.5	11.0	15.2	7.7	66.1
£4.50ph					60.2	26.0	13.5	16.5	10.3	15.3	8.0	66.4
Total					100.0	100.0	100.0	100.0	3.2	10.9	11.0	74.9

Reads: 163,000 18-20 year old employees earn less than £2.50ph
 Reads: 14.9% of 18-20 year old employees earn less than £2.50ph
 Reads: Of those earning less than £2.50ph 22.2% are 18-20 year olds

Table A2.8

Incidence and Composition of Low Pay by Sex and Occupation												
Earnings less than:	Male Manual employees		Female Non-manual employees		Male Non-manual employees		Female Manual employees		Male Non-manual employees		Female Manual employees	
	183	96	253	201	3.3	1.6	8.2	2.7	25.0	13.0	34.5	27.5
Numbers earning less than ('000s):												
Percentage earning less than:												
Of those earning less than percentage of:												
LFS, Spring 1997												
£2.50ph	183	96	253	201	3.3	1.6	8.2	2.7	25.0	13.0	34.5	27.5
£2.75ph	260	120	365	284	4.8	2.0	11.8	3.8	25.2	11.7	35.5	27.6
£3.00ph	318	152	504	385	5.8	2.5	16.3	5.2	23.4	11.2	37.1	28.3
£3.10ph	408	182	672	486	7.5	3.0	21.8	6.5	23.3	10.4	38.5	27.8
£3.20ph	454	200	744	539	8.3	3.3	24.1	7.2	23.4	10.3	38.4	27.8
£3.30ph	500	223	867	631	9.2	3.7	28.1	8.5	22.5	10.0	39.0	28.4
£3.40ph	574	241	966	698	10.5	4.0	31.3	9.4	23.1	9.7	39.0	28.2
£3.50ph	660	258	1,061	787	12.1	4.2	34.4	10.6	23.9	9.3	38.4	28.5
£3.60ph	743	290	1,227	916	13.6	4.8	39.8	12.3	23.4	9.1	38.6	28.8
£3.70ph	814	315	1,292	997	14.9	5.2	41.9	13.4	23.8	9.2	37.8	29.2
£3.80ph	905	351	1,426	1,128	16.6	5.8	46.3	15.1	23.8	9.2	37.4	29.6
£3.90ph	993	372	1,528	1,237	18.2	6.1	49.6	16.6	24.0	9.0	37.0	30.0
£4.00ph	1,060	399	1,603	1,313	19.4	6.6	52.0	17.6	24.2	9.1	36.6	30.0
£4.25ph	1,317	495	1,889	1,644	24.1	8.2	61.3	22.0	24.6	9.3	35.3	30.8
£4.50ph	1,579	574	2,100	1,926	28.9	9.5	68.2	25.8	25.6	9.3	34.0	31.2
Total	5,464	6,069	3,082	7,458	100.0	100.0	100.0	100.0	24.8	27.5	14.0	33.8
NES, April 1997												
£2.50ph					0.6	0.8	1.0	3.5	14.9	17.1	32.5	35.5
£2.75ph					0.8	1.2	1.4	5.2	14.5	18.2	31.8	35.5
£3.00ph					1.1	1.8	2.0	7.5	14.4	18.2	31.2	36.2
£3.10ph					1.4	2.3	2.3	10.5	13.2	18.8	28.5	39.5
£3.20ph					1.5	2.9	2.8	13.2	12.0	19.1	27.9	40.9
£3.30ph					1.7	3.6	3.4	16.3	11.2	19.4	28.1	41.4
£3.40ph					1.9	4.3	4.0	19.4	10.7	19.5	28.1	41.7
£3.50ph					2.1	4.9	4.9	22.5	10.3	19.1	29.1	41.5
£3.60ph					2.5	5.7	5.9	26.6	10.2	18.9	29.8	41.1
£3.70ph					2.8	6.5	6.9	29.9	10.0	18.7	30.6	40.7
£3.80ph					3.2	7.5	8.2	33.5	9.9	18.9	31.6	39.7
£3.90ph					3.6	8.4	9.6	38.5	9.7	18.4	32.1	39.7
£4.00ph					4.0	9.4	11.1	42.0	9.6	18.4	33.3	38.7
£4.25ph					5.2	12.8	14.3	50.4	9.8	19.7	33.8	36.6
£4.50ph					6.5	16.1	17.5	58.8	10.1	20.5	34.2	35.2
Total					100.0	100.0	100.0	100.0	28.9	23.7	36.2	11.1
Reads: 183,000 manual male employees earn less than £2.50ph												
Reads: 3.3% of manual male employees earn less than £2.50ph												
Reads: Of those earning less than £2.50ph 25% are manual male employees												

Table A2.9

Incidence of Low Pay by Industry Sector (SIC 92)													
Earnings less than:	A: Agriculture, hunting & forestry	D: Manufacturing	F: Construction	G: Wholesale, retail & motor trade	H: Hotels & restaurants	I: Transport, storage & communication	J: Financial intermediation	K: Business activities	L: Public administration & defence	M: Education	N: Health & social work	O: Other social & community, personal	P: Private households with employed persons
Percentage of employees earning less than:													
LFS, Spring 1997													
£2.50ph	8.5	2.2	2.8	4.1	9.7	2.4	1.4	2.6	1.2	1.9	3.6	7.1	29.1
£2.75ph	11.5	3.3	3.3	6.2	14.0	2.9	1.9	3.7	1.6	2.8	5.2	8.9	32.7
£3.00ph	15.4	4.4	4.0	8.8	19.0	3.4	2.1	4.8	1.9	3.5	7.4	10.8	36.5
£3.10ph	16.5	5.5	4.5	11.3	28.2	5.1	2.1	6.5	2.3	4.5	8.8	14.0	42.9
£3.20ph	17.8	6.2	4.9	12.9	29.7	5.2	2.2	6.9	2.6	5.3	10.1	15.8	44.3
£3.30ph	19.7	6.7	5.7	15.5	34.0	5.9	2.5	8.1	2.8	6.1	11.7	18.3	45.5
£3.40ph	20.3	7.5	6.7	17.5	38.7	6.4	3.0	8.9	2.8	6.8	12.7	20.4	51.0
£3.50ph	20.9	8.7	7.7	19.7	42.3	7.4	3.4	9.9	3.3	7.7	13.7	22.2	52.0
£3.60ph	25.0	10.0	8.7	23.3	47.7	8.1	3.9	11.4	4.2	9.4	15.3	24.7	58.2
£3.70ph	27.5	10.9	9.9	25.7	50.0	8.9	4.5	11.8	4.6	10.1	16.2	26.0	59.6
£3.80ph	30.4	12.3	10.9	28.6	54.1	9.9	5.2	13.4	5.4	11.9	17.5	28.4	62.2
£3.90ph	31.4	13.6	11.4	31.2	56.3	11.3	6.2	14.5	6.1	13.0	19.1	30.6	64.3
£4.00ph	33.6	14.8	12.8	33.0	58.1	12.3	6.6	15.5	6.3	13.9	20.0	31.5	65.5
£4.25ph	39.5	18.4	15.7	40.9	66.7	16.2	8.3	19.1	8.2	17.7	23.5	38.5	72.2
£4.50ph	45.4	22.3	18.8	46.4	72.1	19.9	11.8	21.9	9.8	21.0	27.5	41.3	76.2
Base ('000s)	201	4,661	1,060	3,320	924	1,412	1,083	2,051	1,504	1,880	2,691	1,005	98
NES, April 1997													
£2.50ph	2.3	0.4	1.0	1.2	3.7	0.5	0.3	1.8	0.5	1.1	1.5	2.9	
£2.75ph	3.6	0.6	1.6	2.2	5.2	0.8	0.3	2.5	0.5	1.4	2.1	3.9	
£3.00ph	4.8	1.0	2.1	3.3	7.5	1.2	0.5	3.4	0.6	1.9	3.1	5.5	
£3.10ph	5.9	1.4	2.6	4.0	11.7	1.4	0.6	4.3	0.7	2.2	4.0	6.9	
£3.20ph	6.6	1.7	2.8	4.8	17.3	1.6	0.7	4.8	0.8	2.6	4.8	8.5	
£3.30ph	7.9	2.1	3.2	6.2	22.5	1.8	0.8	5.6	0.8	3.0	5.6	10.4	
£3.40ph	9.2	2.5	3.5	7.6	28.3	2.0	0.9	6.3	1.0	3.5	6.2	12.4	
£3.50ph	9.9	3.0	3.8	9.3	32.7	2.3	1.0	7.1	1.1	4.3	7.1	14.0	
£3.60ph	11.1	3.6	4.3	11.5	37.7	2.9	1.1	8.4	1.4	4.9	8.3	15.9	
£3.70ph	11.7	4.2	4.8	13.3	40.3	3.3	1.2	9.3	1.8	6.1	9.7	17.6	
£3.80ph	13.5	5.0	5.5	15.7	43.8	3.8	1.4	10.5	2.4	7.4	10.7	19.3	
£3.90ph	15.4	5.8	6.3	18.5	46.4	4.3	1.6	11.6	3.4	9.7	11.8	21.4	
£4.00ph	18.4	6.6	7.0	21.0	48.9	4.8	1.8	12.7	4.2	11.9	13.0	22.7	
£4.25ph	26.3	9.4	9.1	26.6	56.0	6.9	2.6	16.1	5.6	14.8	16.3	26.3	
£4.50ph	31.9	12.5	11.4	32.0	60.8	9.0	3.8	18.8	7.4	18.4	19.9	30.2	
Base (sample nos.)	1,122	28,924	4,145	20,773	4,465	8,868	7,772	15,291	10,227	15,312	14,803	4,557	

Reads: 8.5% of employees in Agriculture earn less than £2.50 ph

Note: No reliable data on low-paid employees in Fishing (B) and other production industries (C&E). NES does not capture private households (P).

Figure A2.1

Distribution of Hourly Earnings in Low-paying Sectors

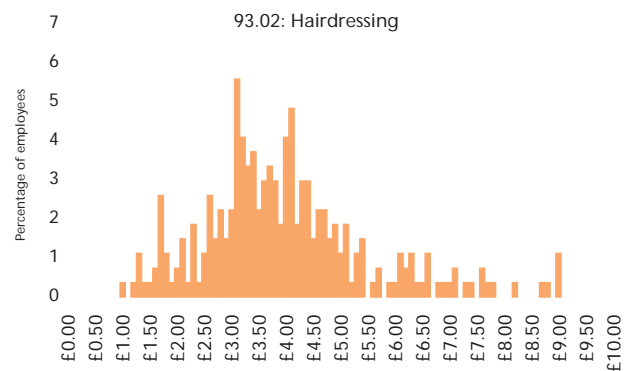
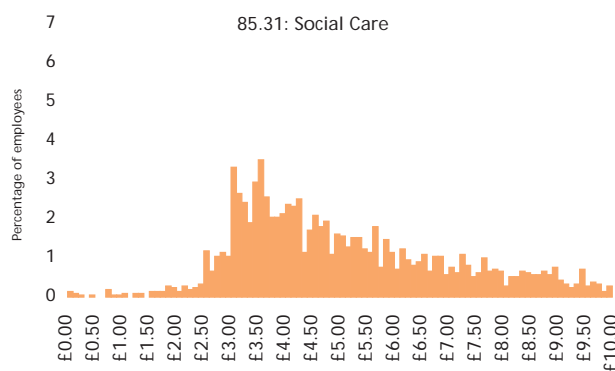
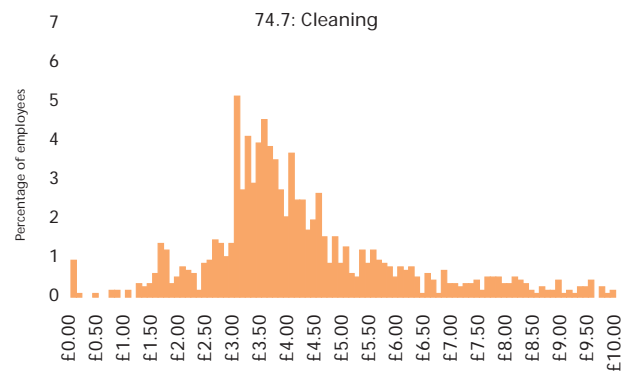
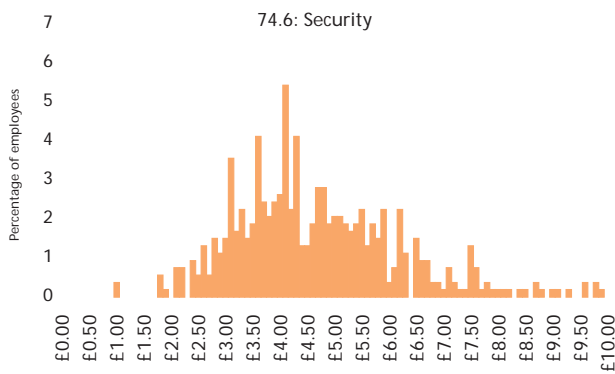
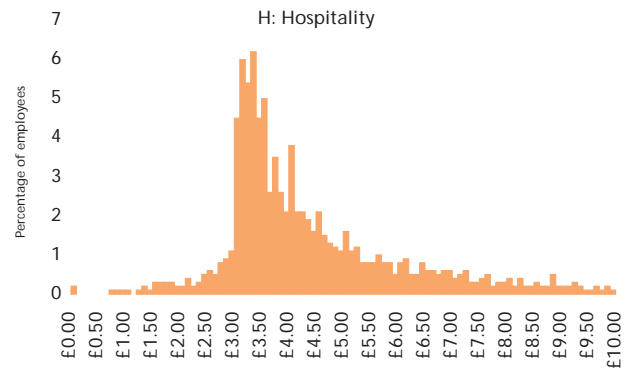
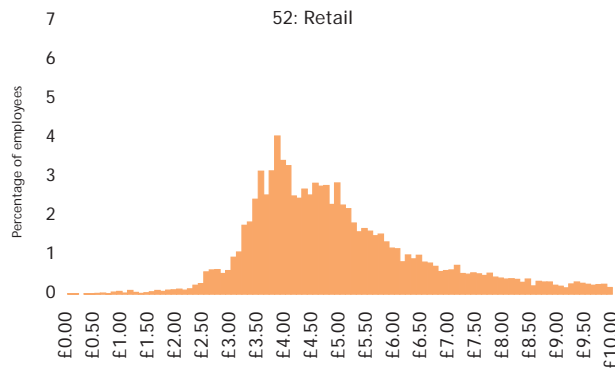
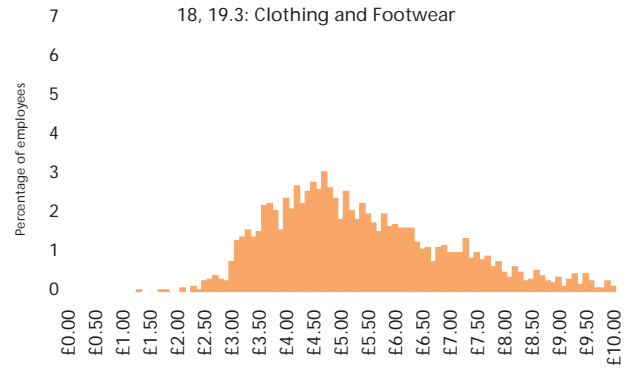
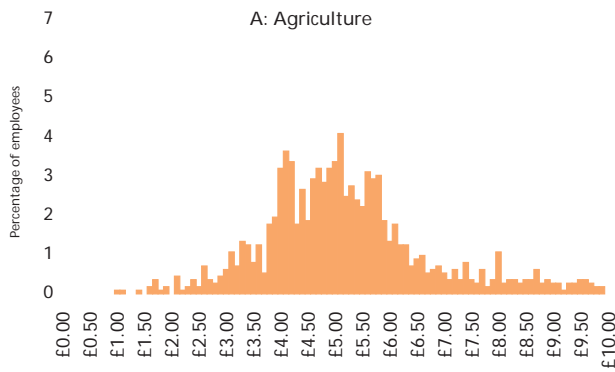


Table A2.10

Incidence of Low Pay by Government Office Region													
Earnings less than:	North East	North West	Merseyside	Yorkshire and the Humber	East Midlands	West Midlands	Eastern	London	South East	South West	Wales	Scotland	Northern Ireland
	Percentage earning less than:												
LFS, Spring 1997													
£2.50ph	3.9	3.0	-	3.5	3.5	4.0	2.7	2.8	2.6	3.9	4.1	3.6	-
£2.75ph	5.8	4.5	5.1	4.4	5.5	5.5	4.2	3.4	3.7	5.7	6.0	5.0	6.3
£3.00ph	7.2	6.0	6.7	6.2	7.2	7.2	5.3	4.7	4.7	7.8	8.1	6.8	8.6
£3.10ph	9.8	8.1	8.4	8.9	7.1	9.3	6.4	5.5	6.2	9.7	10.0	8.9	10.4
£3.20ph	11.7	9.0	9.3	9.4	8.3	10.4	7.0	5.8	6.8	11.1	10.9	9.7	11.3
£3.30ph	13.4	10.2	10.1	11.4	10.0	11.6	8.1	6.3	7.7	12.7	13.0	11.0	12.8
£3.40ph	14.7	11.5	11.5	12.9	11.2	12.9	9.0	7.0	8.3	14.2	14.8	12.3	14.4
£3.50ph	17.7	12.8	13.1	14.4	12.8	14.0	9.9	7.8	9.5	15.6	16.5	13.4	16.1
£3.60ph	19.8	15.0	14.7	16.5	15.0	15.6	12.2	8.7	10.9	17.0	19.3	15.8	19.0
£3.70ph	20.7	16.1	16.7	17.5	16.7	16.9	13.0	9.5	11.9	18.1	20.6	16.6	20.3
£3.80ph	23.5	17.6	19.0	19.6	18.4	18.8	14.4	10.2	13.9	20.5	21.4	18.6	23.4
£3.90ph	24.8	18.9	21.2	21.7	19.7	19.8	15.9	11.0	15.6	22.5	23.3	19.9	24.9
£4.00ph	25.6	20.5	22.6	22.8	21.3	21.1	17.0	11.3	16.4	23.7	24.7	21.2	25.6
£4.25ph	30.0	26.7	26.4	26.6	25.9	25.0	21.0	13.9	20.3	29.0	30.0	26.4	32.3
£4.50ph	35.7	29.9	31.3	31.4	30.7	28.8	24.5	16.2	23.7	32.6	33.8	30.7	35.7
Base ('000s)	945	2,040	471	1,863	1,664	2,033	2,104	2,652	3,058	1,853	1,027	1,948	542
NES, April 1997													
£2.50ph	1.4	1.2	0.4	1.1	0.9	1.2	1.1	0.7	1.2	1.2	1.2	1.4	1.4
£2.75ph	1.9	1.6	1.0	1.6	1.6	1.8	1.8	0.9	1.6	1.7	1.9	2.0	2.5
£3.00ph	2.9	2.4	2.2	2.4	2.5	2.6	2.4	1.2	2.0	2.5	2.6	2.8	3.8
£3.10ph	3.9	3.3	3.0	3.3	3.2	3.4	3.0	1.5	2.5	3.2	3.4	3.4	5.1
£3.20ph	5.0	3.9	4.2	4.1	3.8	4.2	3.4	1.7	2.9	3.9	3.9	4.1	6.2
£3.30ph	6.2	4.8	5.0	5.0	4.8	4.9	4.2	2.0	3.5	4.8	5.2	5.1	7.3
£3.40ph	7.6	5.9	5.8	6.1	5.7	5.8	4.8	2.3	4.0	5.7	6.4	5.9	8.1
£3.50ph	8.5	6.7	6.6	7.5	6.8	6.8	5.5	2.5	4.7	6.8	7.5	7.0	9.1
£3.60ph	10.0	8.1	8.0	8.8	8.1	8.0	6.6	3.0	5.7	8.4	8.7	8.4	10.8
£3.70ph	11.2	9.1	8.8	9.9	9.2	9.3	7.5	3.3	6.5	9.9	9.9	9.6	11.9
£3.80ph	12.8	10.4	10.1	11.3	10.8	10.8	8.6	3.7	7.5	11.4	11.4	10.9	13.7
£3.90ph	14.8	12.0	11.8	13.6	12.5	12.3	9.7	4.1	8.4	12.8	13.1	12.4	16.2
£4.00ph	16.9	13.6	12.8	15.1	14.0	13.8	10.9	4.5	9.5	14.2	14.5	14.0	17.7
£4.25ph	20.6	17.1	16.4	19.4	17.6	17.5	14.4	5.6	12.7	18.0	18.4	17.3	21.9
£4.50ph	24.6	20.4	19.4	23.7	21.0	21.1	17.5	7.3	15.5	21.3	22.3	21.2	26.4
Base (sample nos.)	5,855	12,538	2,763	12,283	9,638	13,422	12,020	19,788	18,143	10,935	5,594	12,575	3,837

Reads: 3.9% of employees in the North East earn less than £2.50ph

Annex B: Technical Note on Use of Raw Data

- 1 As with all sample survey estimates, results from the NES and LFS are subject to a certain margin of error. It is possible to indicate the degree of precision of estimates using a measure of sampling variability known as the standard error. We can use this measure to construct confidence intervals; these provide a range within which we can be fairly certain that the true level of an estimate actually lies. The most widely used confidence ranges are those which provide a probability of 95 per cent that the true value is within the range. This means that the estimate lies within two standard errors of the estimate itself. Such ranges are shown for unadjusted NES and LFS data in Table A2.11. This variability must also be considered in the adjusted estimates.
- 2 The NES is a large survey and, consequently, the survey can be disaggregated to permit reasonably accurate estimates to be derived for sub-sectors of the economy. ONS currently believes that any estimate based on a sample size of at least ten observations can be used as a reliable population estimate, providing that the standard error of that estimate is less than 5 per cent of the estimate itself.
- 3 The LFS provides a much smaller sample and thus reliable estimates are not available for many detailed sectors. Since Spring 1997, the number of people from whom earnings data have been collected has been increased, however, and is now around 20,000. This is still little more than a tenth of the NES sample size, however, and this is reflected in the larger degree of standard error attached to LFS estimates. ONS considers earnings estimates based on a population of 30,000 to be sufficiently reliable for publication. This is equivalent to, on average, a raw sample of 30 to 40 cases. Estimates of 30,000 are subject to standard error of

around 20 per cent, giving a 95 per cent confidence interval of 18,000 – 42,000.

- 4 In general, ONS prefers to use NES for detailed estimates. Because of the significant understatement of low pay within the NES, we use where possible data from the LFS as our best assessment, conscious that it is likely to give an upper estimate of low-pay incidence in all cases. The industrial and other disaggregations that we use were generated to ensure that the sample sizes were large enough to conform to ONS guidelines on reliability. In addition, in order to examine the pattern of low pay and the impact of the National Minimum Wage on certain groups of people, we looked to the LFS; data, for example on homeworkers and people with disabilities, are simply not available from the NES. For some information, such as detailed regional and sub-sector information, however, the NES remains the only source.

Table A2.11

95% Confidence Limits for Overall Incidence Estimates				
% of employees earnings less than:	NES lower	NES upper	LFS lower	LFS upper
£2.50 ph	1.3	1.5	3.7	4.7
£3.00 ph	2.5	2.9	6.8	8.0
£3.50 ph	6.6	7.0	13.3	14.9
£4.00 ph	12.9	13.5	20.6	22.3
£4.50 ph	19.6	20.4	28.5	30.5

Source: NES, April 1997; LFS Spring 1997

Appendix 3

Trends in Wage Inequality

In order to analyse changes in wage inequality over recent times, the Commission asked Richard Dickens of the Centre for Economic Performance at the London School of Economics to provide a research paper. This appendix contains the analysis he presented to the Commission. It covers changes in cross-sectional wage inequality over the last few decades; the UK experience in an international context; a detailed examination of the UK experience, looking at factors such as education, occupation, gender, age and cohort differentials; possible explanations for the rise in inequality; and, finally, changes in earnings mobility. The analysis draws on a number of datasets; each has its limitations, which are discussed in Appendix 2.

Changes in Cross-sectional Wage Inequality

1 This section analyses the main changes in cross-section wage distribution over the last few decades, drawing on a number of datasets. An analysis of the aggregate trends in wage inequality is provided. This is examined in an international context. The differences in wages between more disaggregate groups is then investigated, including the sexes, age groups, manual/non-manual workers and full-/part-time workers. Dispersion within groups is also presented. Finally, a discussion of the literature studying possible explanations of the rise in wage inequality is provided.

Aggregate Time Series

2 Figure A3.1a provides an analysis of the distribution of hourly earnings from the New Earnings Survey (NES) between 1975 and 1996 and the Family Expenditure Survey (FES) between 1966 and 1996.¹ The figure plots the 10th, 50th and 90th percentiles of log hourly earnings, indexed to one in the base year. It is evident that earnings have risen at all points in the distribution over the whole time period. The gains over time, however, are different for the various percentiles, with median earnings rising faster than the 10th percentile and the 90th percentile rising faster still. Growth in

earnings has not been experienced equally across the pay distribution. It is clear, nevertheless, that inequality has not been rising over the whole period. The FES data provide evidence of four clear stages in the evolution of the cross-sectional wage structure between 1966 and 1996. These stages are highlighted in Gosling et al. (1996).

- **1966–72:** Little change in the wage distribution, with similar real wage growth for the 10th, 50th and 90th percentiles.
- **1972–75:** A compression of the wage distribution, with positive real wage growth across the distribution, but faster growth at the bottom, during the period of the Conservative Government's statutory incomes policy.
- **1975–78:** Falling real wages at all percentile points in the distribution at the time of the Labour Government's 'Social Contract' voluntary incomes policy.
- **1978–96:** A sharp increase in dispersion with slow real wage growth at the bottom of the distribution and rapid growth at the top.

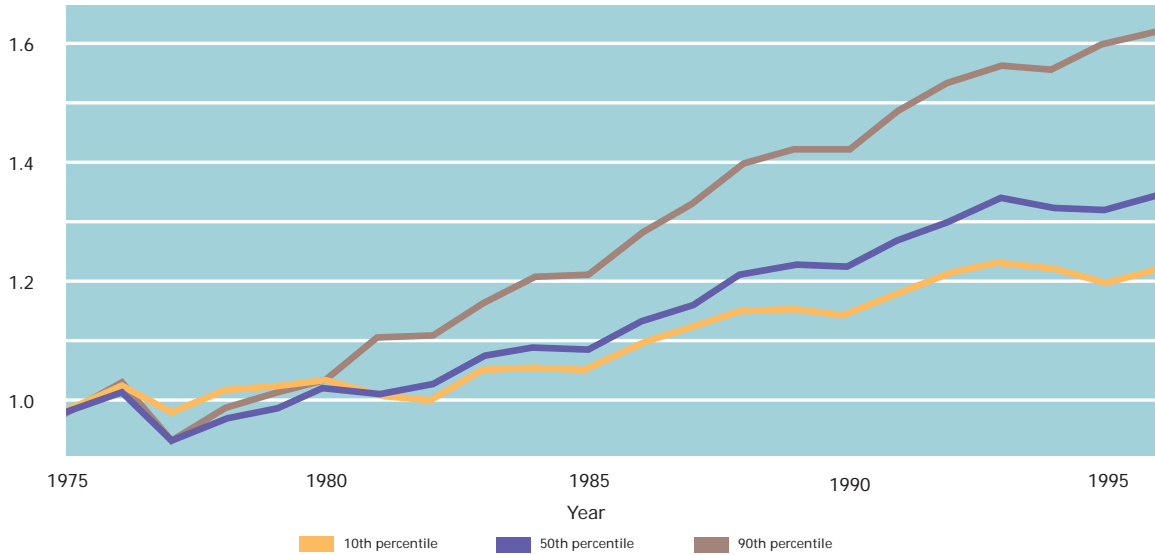
3 In fact, since 1978, real hourly wages in the NES at the 10th percentile have risen by 20 per cent compared with 38 per cent at the median and 66 per cent at the 90th percentile. The corresponding figures from the FES are 16 per cent, 23 per cent and 40 per cent. So although there are some differences between the two surveys in terms of actual growth rates, they both paint an unambiguous picture of sharply rising inequality since 1978.² Despite strong evidence of rising inequality, both data sources provide evidence of rising real hourly wages at the bottom of the pay distribution. When one focuses on male earners, however, one finds rising wages at the 10th percentile in the NES (14 per cent increase since 1978) but effectively no growth for the 10th percentile male in the FES (see Gosling et al., 1998). The difference undoubtedly arises from the sampling differences in the two surveys.

- 2 Part of the difference in actual growth rates between the FES and NES over this time period may arise from sampling differences. The NES under-samples those on low weekly earnings, those who change jobs frequently and those in small firms. The FES covers a much smaller sample of employees and suffers from greater sampling variability.

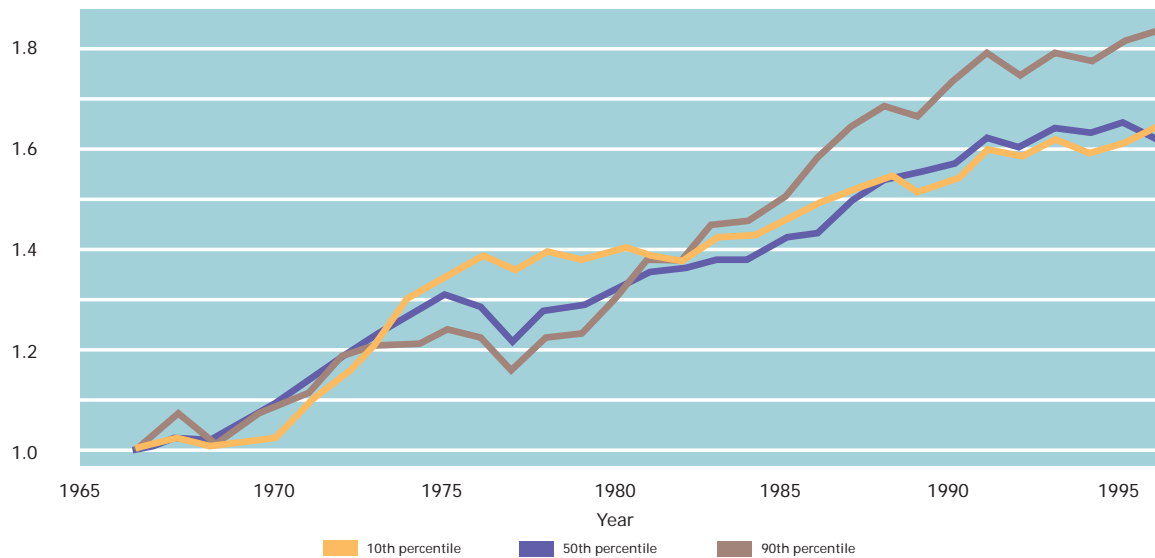
1 Data, kindly provided by Amanda Gosling, include men aged 22 to 59.

Figure A3.1a

Indexed Real Hourly Earnings Deciles (1975=1) from the New Earnings Survey: 1975–1996



Indexed Real Hourly Earnings Deciles (1966=1) from the Family Expenditure Survey: 1966–1996

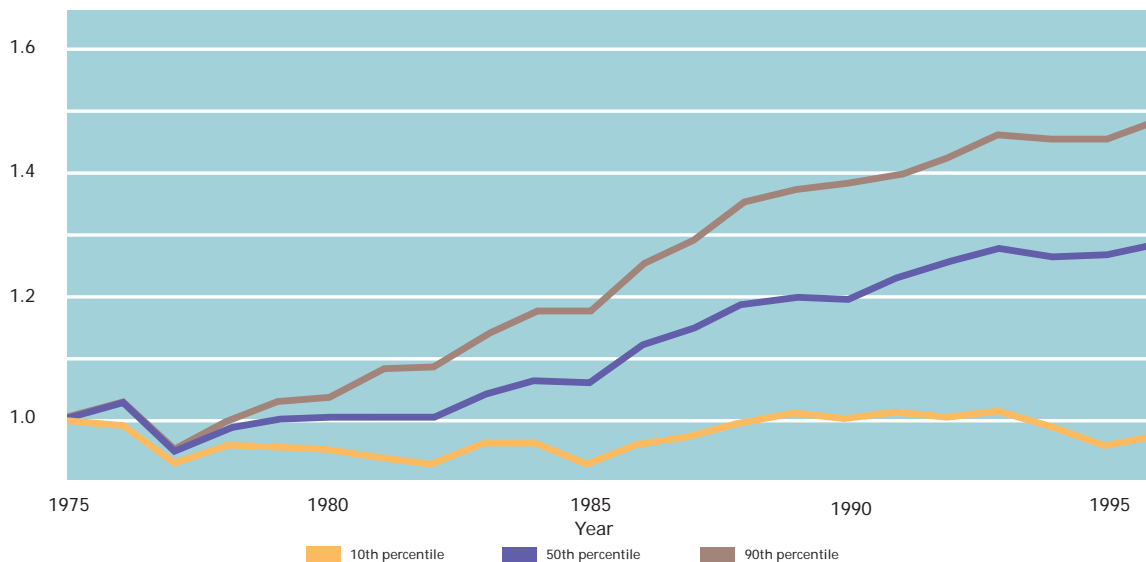


4 Figure A3.1b presents real weekly earnings growth from the NES (1975–96) and the General Household Survey (GHS) (1975–95). A similar pattern arises as for hourly earnings, with median earnings growing faster than 10th percentile earnings and the 90th percentile growing

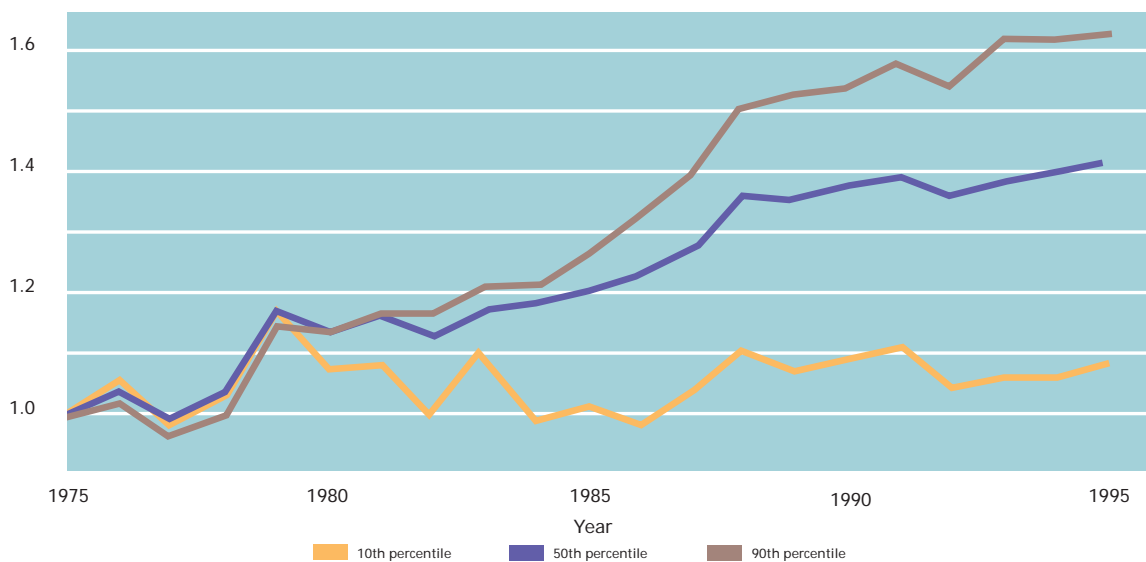
faster still. One noticeable difference is that earnings growth at the bottom is much more stifled, with real weekly earnings growing by only 2.5 per cent between 1978 and 1996 in the NES.

Figure A3.1b

Indexed Real Weekly Earnings Deciles (1975=1) from the New Earnings Survey: 1975–1996



Indexed Real Weekly Earnings Deciles (1975=1) from the General Household Survey: 1975–1995



5 The experience in Britain of sharply rising wage inequality over the last two decades is perhaps even more striking when viewed from a historical perspective. Table A3.1 (updated from Machin, 1996a) presents time series data on wage dispersion for male manual employees in Great Britain from 1886 to 1997. This is the only consistent data series available back to the last

century. It is evident that throughout most of this century there has been a striking level of stability in the level of wage dispersion as measured by the ratio of the 90th percentile to the 10th percentile. Since the late 1970s, however, wage dispersion has increased rapidly so that it is now higher than it was over a century ago, using comparable data.

Table A3.1

Wage Inequality in Great Britain: 1886–1997	
Year	90th/10th percentile
1886	2.07
1906	2.34
1938	2.06
1970	2.21
1976	2.07
1979	2.19
1982	2.25
1988	2.45
1990	2.48
1997	2.61

Source: Updated from Machin (1996a), taken from NES data

Note: Figures based on male manual full-time weekly earnings.

UK Experience in an International Context

- 6 Table A3.2, adapted from a table from Machin (1996a) and the Organisation for Economic Co-operation and Development (OECD) (1996), provides an international comparison of wage inequality between 1973 and 1995. Data on the ratio of the 90th to the 10th percentile of the wage distribution are presented for male and female workers for eleven OECD countries. Throughout the 1970s the wage distribution remained stable in most countries with the exception of the US, where inequality has been rising since the late 1960s. Inequality rose in a number of countries in the 1980s, but by far the greatest increases occurred in the US and the UK. In fact, the rise in UK wage dispersion in the 1980s was even faster than that in the US. Despite this, the level of inequality in the US remains much higher than in the UK. In many countries inequality was unchanged and in some (notably Germany, France and Italy) it actually fell. This trend was perpetuated in the first part of the 1990s, with the UK differing from the other countries, and experiencing a continued increase in wage dispersion.
- 7 Although the US and UK have both experienced rapid increases in wage inequality over the last couple of decades, their experiences in terms of real wage growth differ. In the US real wages have fallen sharply at the bottom of the distribution, with real wages for the 10th percentile male falling by 10 per cent between 1985 and 1995. This is in contrast to the experience in the UK where real wages have risen at the bottom of the distribution, albeit at a slower rate than at the middle and the top.

UK Experience in More Detail

- 8 A number of papers have analysed the rise in wage inequality by looking at differences arising between and within groups of individuals with certain characteristics, including education, occupation, sex and age. Below we consider these in turn.

Education Differentials

- 9 The OECD (1993) study presents education differentials for different countries from the late 1960s to the early 1990s. In many countries, including the UK, the education premium fell during the 1970s. In the 1980s, however, the premium rose sharply in the UK and US, the two countries with the fastest growth in inequality.
- 10 Schmitt (1995) uses the UK GHS between 1974 and 1988 to look at returns to different human capital variables. He estimates wage equations for each yearly cross-section and looks at the changing returns on different characteristics. This methodology allows the study of changing returns on one variable while controlling for other characteristics. Returns to education fell between the early 1970s and the late 1970s. By the late 1980s they had, however, increased again, albeit not up to the level of the early 1970s. This rise in education returns occurred despite an increase in the relative supply of more highly educated employees. Similarly, the wage returns to potential labour market experience fell in the 1970s but rose strongly in the 1980s, surpassing their early 1970s level.

Occupation Differentials

- 11 Machin and Van Reenen (1997) study wage differentials by occupation groups for the US and UK. They find that the non-manual/manual wage differential displayed a similar pattern to the education differential, falling in the 1970s but rising quite sharply in the 1980s. Once again this is despite an increase in the relative employment of non-manual labour throughout the 1970s and 1980s (see Machin, 1996b).
- 12 Figure A3.2 presents the ratio of the non-manual/manual hourly wage from the NES for 1975 to 1996. For both male and female employees the ratio has risen sharply since the early 1980s. In 1980, non-manual males earned about 50 per cent more than their manual counterparts. By 1996, this differential had risen to 80 per cent. Female non-manual employees have seen an even greater increase over manuals, from a 30 per cent differential in 1980 to a 75 per cent differential in 1996.

Table A3.2

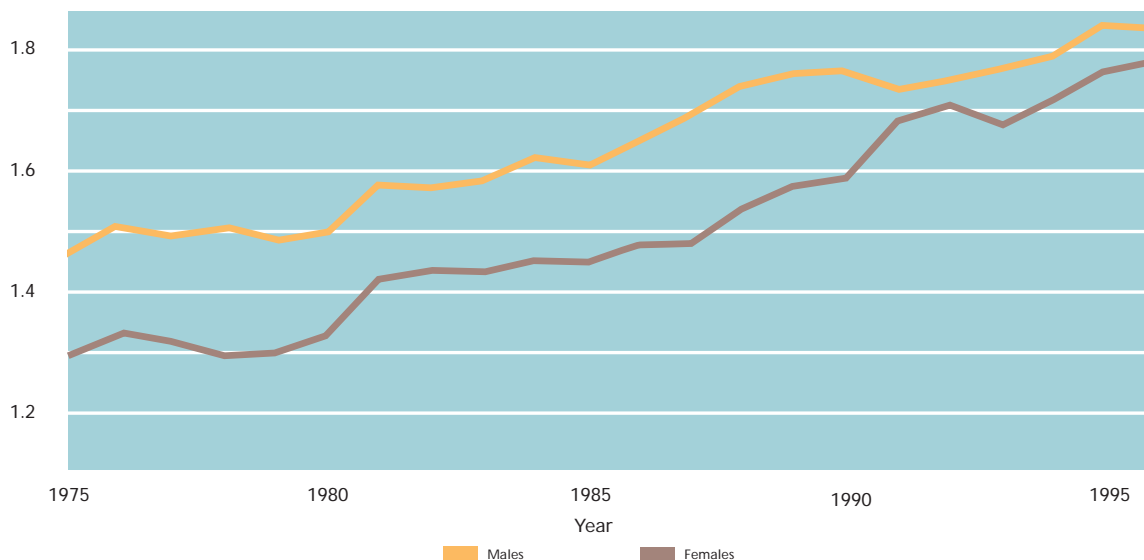
90th – 10th Percentile Wage Ratios for Selected OECD Countries: 1973–1995					
Males	1973	1980	1990	1995	Definition
Australia	2.00 (1976)	2.01	2.23	2.38	Gross weekly earnings (FT, non-managerial)
Austria	-	2.19	2.38	2.40 (1994)	Gross daily earnings, 80:10 ratio
Belgium	-	1.90 (1983)	1.92 (1988)	-	Gross average FT income per day, 80:10 ratio
Canada	3.21	3.48 (1981)	3.98	3.77 (1994)	Gross annual earnings (FT all year)
France	3.23	3.25	3.21	-	Gross annual earnings (FT)
Germany	-	2.40 (1983)	2.32	2.24 (1993)	Gross monthly earnings
Italy	-	2.12	2.08 (1987)	-	Net annual earnings (FT all year)
Japan	-	2.59 (1979)	2.84	2.77 (1994)	Monthly scheduled earnings of regular workers
Sweden	2.07	2.15	2.15 (1991)	-	Gross hourly earnings
UK	2.50	2.53	3.21	3.61	Gross hourly earnings
US	4.71 (1975)	4.76	5.63 (1989)	5.56 (1992)	Gross hourly earnings (FT all year)
Females	1973	1980	1990	1995	Definition
Australia	1.78 (1976)	1.83	1.96	2.05	Gross weekly earnings (FT, non-managerial)
Austria	-	3.35	3.51	3.69 (1994)	Gross daily earnings
Belgium	-	1.79 (1983)	1.75 (1989)	-	Gross average FT income per day, 80:10 ratio
Canada	3.09	3.74 (1981)	3.98	4.01 (1994)	Gross annual earnings (FT all year)
France	2.65	2.66	2.51	-	Gross annual earnings (FT)
Germany	-	2.64 (1983)	2.39	2.26 (1993)	Gross monthly earnings
Italy	-	2.22	2.02 (1987)	-	Net annual earnings (FT all year)
Japan	-	2.20 (1979)	2.33	2.24 (1994)	Monthly scheduled earnings of regular workers
Sweden	1.87	1.69	1.82	-	Gross hourly earnings
UK	2.57	2.40	3.02	3.33	Gross hourly earnings
US	4.19 (1975)	3.92	4.89 (1989)	4.86 (1992)	Gross hourly earnings (FT all year)

Source: Machin (1996a; Table 1) and OECD (1996). Adapted from OECD (1993) and OECD (1996). See OECD (1993,1996) for more detailed definition and data source for each country. See Machin (1996a) or OECD (1993,1996) for an international comparison of the changing patterns of wage inequality and low pay

Notes: Ratios of 90th to the 10th percentile of the relevant wage distribution (defined in final column).

Figure A3.2

Ratio of Non-manual/Manual Real Hourly Earnings by Sex from the New Earnings Survey: 1975–1996



Gender Differentials

- 13 Harkness (1996) examines gender wage differentials using the FES between 1973 and 1993. She reports an increase in hourly wages for all women from 59 per cent of male wages in 1973 to 71 per cent in 1993. Much of this increase occurred in the mid-1970s, with the introduction of the Equal Pay Act in 1975. There was a further closing of the gender wage gap from the mid-1980s. This aggregate trend, however, ignores some important differences between female full-time and part-time employees. For female full-time employees, the gender earnings ratio rose from 59 per cent in 1973 to 77 per cent in 1993. For female part-time employees, however, although the ratio rose in the late-1970s from 59 per cent to 67 per cent, it fell back in the 1980s, and by 1993 female part-time earnings were still only 63 per cent of male earnings.³ Figure A3.3 plots the ratio of female full- and part-time earnings against all male earnings from the NES between 1975 and 1996. This confirms the trend observed in the FES and shows a continuation of this into the mid-1990s.

3 Harkness (1996) compares female full- and part-time employees to all men. There are too few male part-time employees in the FES to make a reliable comparison. Data from the NES show that the ratio of female part-time employees' to male part-time employees' earnings has risen sharply from 60% in the mid-1980s to about 80% in 1996. This reflects the deterioration of male part-time employees' earnings relative to male full-time employees' earnings.

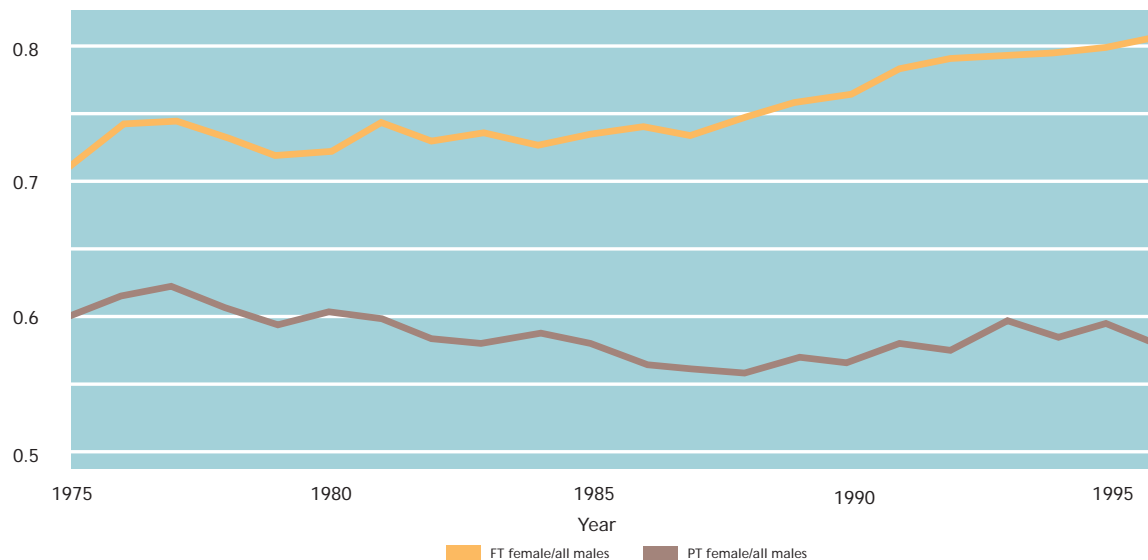
- 14 Harkness analyses the gender earnings gap for female full- and part-time employees into that part that is attributable to differences in observable characteristics (age, education, presence of children, etc.) and that part attributable to differences in the returns to these characteristics. She finds that while differences in the characteristics of female full-time employees to males did little to explain the earnings gap with men, differences in characteristics for female part-time employees accounted for up to two-thirds of the earnings gap. Her results suggest that while female part-time employees are low paid (compared with all males) because they are low skilled, they face less discrimination than female full-time employees.

Age and Cohort Differentials

- 15 Wage differentials between age groups have also changed since the 1970s. Davis (1992) reports an increasing wage premium for older workers over younger workers in both the US and the UK. Gosling et al. (1996, 1998) also report increasing relative wages for older workers. The early rise in the wage premium could be explained in terms of the 'baby boom', when more young workers were entering the labour market. Since the mid-1980s, however, the increased supply of younger workers stopped but the wage premium for older workers continued to rise.

Figure A3.3

Ratio of Female Full-time and Part-time Employees' Hourly Earnings to All Men's Hourly Earnings from the New Earnings Survey: 1975–1996

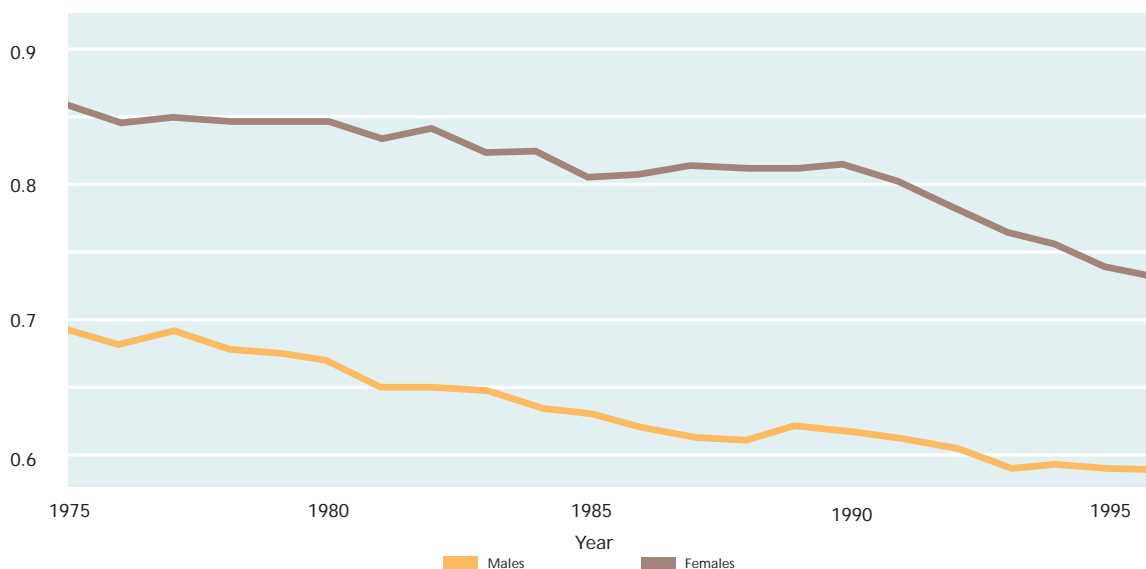


16 Figure A3.4 presents the ratio of hourly earnings for under-25 year olds to over-25 year olds for males and females from the NES. The wage penalty for young female employees (compared with older female employees) is significantly less than that for men. In 1975, young men on average earned 70 per cent of the older male wage, compared with 88 per cent for young women. Over time the ratio of young employees' wages to older employees' wages has fallen by about 15 per cent. This fall is of a similar magnitude for both men and women.

17 Gosling et al. (1996, 1998) examine the male wage structure for separate birth cohorts, using both FES and GHS data from the 1960s to the mid-1990s. They examine the hypothesis that the distribution of pre-labour market skills of younger cohorts entering the labour market is becoming wider. Possible reasons given for this are the successive education reforms that have been introduced in the UK and changes in the quality and distribution of education. They argue that, although the age profile of wages has risen since the mid-1970s, this is

Figure A3.4

Ratio of Under-25 Year Olds' Hourly Earnings to Over-25 Year Olds' Hourly Earnings from the New Earnings Survey: 1975–1996



attributable to cohort differences rather than any increases in the return to experience over time. In fact they only find experience effects at all points of the wage distribution for more educated employees. The wages of those at the bottom of the low education group do not rise over the lifecycle. Their results are consistent with the human capital ideas put forward by Becker (1975); for some groups, education differentials are negative early in the lifecycle but then increase with age. In addition, they show that wage dispersion within cohorts rises as the cohort ages, a result also found by Dickens (1996) using the NES panel. This is consistent with models where information about individuals' ability is revealed over time on the job (for example, see Jovanovic, 1979, or Farber and Gibbons, 1996).

Within-group Changes

- 18 In addition to these clear rises in wage differentials between groups, there has also been an equally, if not more, important increase in dispersion within groups. Machin (1996a), using FES data, reports increasing within-group standard deviations in the 1980s by education, occupation, public/private sector and age groups. The increase is particularly large for the lower education group. He also reports an increasing dispersion of the residuals from yearly cross-section regressions on age and schooling, indicating that a large degree of the rise in dispersion has occurred within these groups. In fact, Schmitt (1995) finds that, in addition to the changes in labour market returns between education and experience groups, about 60 per cent of the rise in wage inequality has occurred within these groups between 1974 and 1988.

Possible Explanations for the Rise in Inequality

- 19 There are two possible explanations for the rise in wage inequality in the UK. These are changes in the relative demand for skilled workers, and the changing role of labour market institutions.

Changes in the Relative Demand for Skilled Workers

- 20 Perhaps the most common explanation for the large rise in within-group wage dispersion is that it reflects an increase in demand for unobserved skill or ability. We have seen that there has been an increase in the return to being more highly educated, skilled and experienced, driven by an increase in demand for these qualities.

It seems plausible that there would also be a rise in demand for the unmeasured part of an individual's ability. It is likely that an individual's measured skill attributes are correlated with their unmeasured skill attributes. Given that ability differs within groups of individuals, say among university graduates, then we would see a rise in dispersion within these groups.

- 21 There are two main explanations put forward for the rise in relative demand for more highly-skilled workers. These are increased competition in low-skill industries because of the growth in world trade and increasing technological change biased towards more highly-skilled individuals. Most of the evidence tends to support the technological change hypothesis rather than the trade argument. Berman et al. (1997) and Machin (1996b) study the skill composition of employment in US and UK manufacturing respectively. If the trade argument were dominant we would expect to see falls in employment in the low-skilled industries most affected by foreign competition. Most of the change in the composition of employment has occurred within industries rather than between industries, however. In addition, they find that larger changes in the skill composition have occurred in the industries with higher levels of Research & Development, suggesting a link between technology changes and the demand for more skilled workers. This result is backed up by research by Machin and Van Reenen (1997), looking at a panel of manufacturing industries in the UK, the US, France, Germany, Japan, Denmark and Sweden between 1973 and 1989.

The Role of Institutions

- 22 The changing role of labour market institutions has also been considered as a potential cause of the rise in wage inequality. Gosling and Machin (1995) study the role of falling unionisation on the distribution of wages in the UK. They estimate that around 20 per cent of the rise in inequality can be attributed to the decline in union coverage. Similarly, Bell and Pitt (1996) find that 20 per cent of the rise in the variance of log earnings can be explained by declining union density. Machin and Manning (1994) consider the impact of the declining value of the minimum wage on the wage structure in the Wages Council industries. Their estimates suggest that the erosion of the minimum has increased inequality in these low-paying industries by somewhere between 9 per cent and 20 per cent. Machin (1997) studies the role of both the unions and the Wages Councils and finds a compression effect on wages from both these institutions. In addition, the unwinding of the effects of incomes

policies in the 1970s may also have caused some widening in the earnings distribution in the early 1980s.

Dynamics of Earnings

- 23 All of the discussion above concerns the cross-sectional distribution of earnings in a given year. These studies provide a snapshot of the earnings distribution at a point in time, but tell us nothing about movement within the distribution from one period to the next. If there is a high degree of movement of individuals within the earnings distribution, then one may be less concerned about pay inequality, because those with low pay this year may well move into higher pay the following year. It could be the case, however, that the distribution is very rigid over time so that low-paid workers remain low paid for long periods of time. In this case, one may be more worried about a high level of pay inequality. Given the rise in cross-section wage inequality in this country, it is of interest to see whether the level of mobility has changed over time. It could be that mobility has risen to offset this rise, keeping the distribution of 'lifetime' inequality unchanged.
- 24 To analyse this issue one requires longitudinal data that follow the same individuals over a number of time periods. Until recently, very little research had been carried out on the earnings mobility issue. This was because of a lack of suitable data. With the introduction and greater availability of a number of panel datasets in the UK, however, work in this area has grown substantially. Below we consider both short-run and longer-run earnings mobility and compare the UK experience with elsewhere.

Short-run Earnings Mobility

- 25 Stewart and Swaffield (1997b) use the British Household Panel Survey (BHPS) to study transitions into and out of various low-pay thresholds (see also Gosling et al., 1997). They report a high degree of persistence of low pay for certain individuals. They find, for example, that 44 per cent of low-paid men in 1991 (defined as below half the median hourly wage) remain low paid in 1992. Of those low paid in both 1991 and 1992, however, 75 per cent remain low paid in 1993. They also emphasise that the low paid are more likely to move into non-employment than those further up the distribution. As a consequence, restricting attention to those in employment in both periods, will overstate the probability of moving up the distribution.
- 26 In addition, they find that those who move from low pay into high pay are much more likely to move back into low

pay again. Some 24 per cent of employees in low pay in 1991 and high pay in 1992 move back into low pay in 1993. This compares with 1.4 per cent of those high paid in both 1991 and 1992. A similar pattern arises when they include those who move in and out of employment. Looking at men who were out of work in 1992 but moved into employment in 1993, they find that those who were low paid in 1991 were five times more likely to move back into low-paid work in 1993 than those who were high paid in 1991. This, they say, is evidence of a cycle for some individuals of low pay/no pay.

- 27 Stewart and Swaffield (1997b) also examine the determinants of movement out of low pay. They find that those with more years of education, those with recent training and those covered by unions are more likely to exit from low pay. They also find, however, that, even after controlling for individual characteristics, the experience of low pay is highly correlated with past low-pay experience. This could be because there is a stigma attached to low pay that makes it difficult for workers to find better jobs or because unobserved individual characteristics are correlated with low pay. They find that a substantial proportion of the probability of being low paid is because of state dependence.

Longer-run Earnings Mobility

- 28 National Insurance contributions data were used by Ball and Marland (1996) (see also Nicholls et al., 1997) to look at long-run earnings mobility between 1978/79 and 1993/94, taking a cohort of men aged between 25 and 44 in January 1978. They used information on annual earnings and employment/benefit status in 1978/79 and 1993/94. Their results paint a picture of a high degree of persistence in terms of earnings and dependency on benefits. Taking those aged 25 to 34 in 1978, of those in the bottom decile in 1978/79 only 13 per cent were in the bottom decile in 1993/94. Around 28 per cent, however, had moved onto either a full or a partial year's benefit and 8 per cent had moved into self-employment. Of those who did move up the distribution, only about 35 per cent got beyond the median. It seems likely that much of this progression is related to the normal life cycle increase in earnings. When they look at the 35 to 44 year olds they find more persistence with 19 per cent remaining in the bottom decile and 41 per cent moving onto benefits. Of these older men who had moved up the distribution, only 22 per cent had moved above the median. Also striking in their analysis is the number of individuals who remain on benefits. Some 64 per cent of the 25 to 34 year olds on benefit in 1978/79 were still on benefit in 1993/94. This rises to a startling 78 per cent

for the older men. Their analysis seems to confirm the pattern of individuals caught in a trap of low-paid jobs and non-employment.

Changes in Earnings Mobility Over Time

- 29 A drawback with much of the UK analysis is that it has not addressed the question of whether there have been changes in the dynamics of the earnings process over the last couple of decades.⁴ Given that the cross-sectional distribution of earnings has changed so much recently, one may expect to see changes in the movement of individuals within this distribution over this time period. Dickens (1997a, 1997b) uses NES data to examine changes in short- (one year) and long-run (five year) mobility between 1975 and 1994. He finds evidence of a statistically significant fall in short-run mobility for men, with evidence of an insignificant fall for women. There is some weak evidence that five year mobility has fallen for men, but not for women. Given rising cross-section inequality, this evidence is disturbing. Not only has the position of the low paid deteriorated in relative terms, but they also find it more difficult to improve their position over time.
- 30 A related issue to that of changes in mobility rates over time is the question of whether the rise in cross-sectional wage dispersion is largely because of increases in permanent wage differences between individuals, or whether it can be explained by a rise in transitory differences. Dickens (1996, 1997b) uses NES data to analyse the rise in wage inequality between 1975 and 1995. He finds that earnings differences can be explained by a permanent component (that lasts forever) and a highly persistent transitory component (that dies out over time). About half of the rise in wage inequality over this period can be explained by a rise in the permanent component, with the rest explained by the persistent transitory component. This has potentially

4 This is largely due to a lack of suitable panel data that covers a long enough time period. Blundell and Preston (1995a, 1995b) develop an intertemporal model of consumption expenditure. They show that permanent and transitory income inequality can be identified from individual level cross-section data on consumption and income. The results of their analysis of FES data from 1970–92 suggest a steady increase in permanent inequality over this period coupled with a sharp rise in transitory inequality in the later part of the 1980s.

serious welfare consequences for the rise in 'lifetime' differences between individuals.

- 31 Stewart (1997) divides cross-sectional wage dispersion into permanent and transitory components using the BHPS between 1991 and 1995. He finds a negative correlation between the transitory variance of earnings and the level of permanent earnings; those on low pay also face higher levels of earnings instability. This is evidence against the compensating differentials argument, whereby lower earnings would be more stable. This result holds when controlling for job change, type of job contract and the existence of incentive payments. He also finds that the transitory component of earnings is higher for those who change jobs and those not on full-time permanent contracts.

Cross-country Differences in Earnings Mobility

- 32 OECD (1996, 1997) provides an analysis of earnings mobility between 1986 and 1991 in eight OECD countries: the US, the UK, Germany, France, Italy, Denmark, Finland and Sweden. It finds similar levels of earnings mobility in these countries, in terms of both the number of individuals moving quintiles between 1986 and 1991 and the correlation between earnings in the two periods. This suggests that the differences in cross-sectional earnings mobility across these countries is probably reflective of the differences in lifetime earnings inequality.
- 33 The OECD research also studies the movement of workers out of low-paying jobs and finds that the share of workers who were low paid (in the bottom quintile) in 1986 and who remained low paid in 1991 varied from 27 per cent in Germany to 44 per cent in Italy. A considerable proportion of the low paid in 1986 had left full-time employment by 1991. There is clearly a potential problem with these cross-country comparisons arising from the fact that the range of the quintiles will differ widely across these countries, since the distribution of earnings is so different. The OECD research attempts to remedy this by looking at absolute threshold points for earnings. For example, when it defines low pay as 65 per cent of the median, it finds transitions out of low pay vary much more widely: from 6 per cent in Denmark to 34 per cent in the UK and US. It also reports some evidence that those countries with higher levels of cross-sectional earnings inequality have lower levels of upward mobility of low-paid workers.

Appendix 4

Tax and Benefits System

- 1 The tax and benefits system will be a major factor in determining the impact of the National Minimum Wage on the net income of many workers. Most workers, except those with the lowest earnings, are subject to deductions from their earnings for income tax and National Insurance Contributions (NICs), which reduce the effect of an increase in gross earnings. Many low-paid workers need to have their earnings supplemented by in-work social security benefits, but these benefits are income-related and therefore they are gradually withdrawn as the worker's income increases – for example, because of the introduction of the National Minimum Wage. This will partially reduce the net gain.
- 2 This appendix describes briefly how the current tax and benefits system operates, but also sets out the Government's proposals for changes to these systems. The implementation of these proposals in 1999 and 2000 will interact with the National Minimum Wage and will have a significant impact on the net incomes of workers and their families. The introduction of the changes spans the period of implementation of the National Minimum Wage. We have, therefore, taken full account of the effect of these proposals in our consideration of the effect of the National Minimum Wage on public spending costs in Chapter 6, and our assessment of its financial impact on individual workers in Chapter 7 of this report.

Current Tax and Benefits System

Income Tax

- 3 Income tax is levied at a starter rate of 20 per cent on earnings which exceed the personal tax allowance (currently £4,195 a year, or £81 a week, for a single person) and then on a scale up to 40 per cent as earnings increase. Married couples and certain individuals, for example new widows, are entitled to an additional married couple's or personal allowance, which attracts tax relief at 15 per cent (see Annex A).

National Insurance

- 4 Neither the employer nor the employee is liable for NICs until the employee's earnings reach the 'lower earnings limit' (LEL), currently £64 per week. Once earnings reach this level, the employer is required to pay a minimum 3 per cent contribution on earnings above £64, although higher rates up to a maximum of 10 per cent are triggered as earnings increase (see Annex B). The employee pays 2 per cent on earnings below the LEL

as well as 10 per cent on earnings above it. Where the employee is contracted-out of the State Earnings-Related Pension Scheme (SERPS), however, the rates of contribution for both the employer and the employee are lower.

In-work Benefits

- 5 There are two main benefits payable exclusively to working people on low incomes: Family Credit, payable to around three quarters of a million working families with children; and Disability Working Allowance (DWA), payable to about 12,000 disabled workers. To qualify for these benefits, the worker must be working at least 16 hours per week, although an additional credit is payable where the work exceeds 30 hours per week.
- 6 In addition, Housing Benefit (HB) and Council Tax Benefit (CTB) are available to help people, including workers, on low incomes with the cost of rented accommodation and Council Tax. These benefits are all withdrawn on a tapered basis once the family's or individual's income increases above a statutory level. Family Credit and DWA are withdrawn at a rate of 70 pence in the pound, while the tapers for HB and CTB are 65 pence and 20 pence in the pound respectively.

1998 Budget Proposals

- 7 In the March 1998 Budget, the Chancellor announced a range of proposals which, together with the National Minimum Wage, form part of the package of measures to improve incentives to work. The main proposals which will have an impact on the National Minimum Wage are:
- reform of the National Insurance Contributions system;
 - a new tax credit, the Working Families Tax Credit (WFTC), payable to working families with children;
 - a new childcare tax credit within the WFTC; and
 - a new tax credit to help sick and disabled people into work: the Disabled Person's Tax Credit.
- 8 In addition, the Chancellor re-affirmed the Government's commitment to introduce a 10 pence starting rate of income tax when it considers it is economically right to do so. Details of the Budget proposals are described below.

Income Tax

- 9 Although there is no change proposed to the basic rate of income tax, the Chancellor announced minor reductions in income tax relief. Tax relief on the married couple's

and additional personal allowances will be 10 per cent from April 1999.

National Insurance

- 10 From April 1999, the threshold for employers' NICs will be raised to the level of the single person's tax allowance (currently £81 per week). This is intended to reduce administrative burdens on employers and represents a first step towards the alignment of the tax and National Insurance systems. The employer will be liable for a flat-rate contribution of 12.2 per cent of the employee's earnings above that level. This avoids the current stepped increases at £110, £155 and £210 per week. The Government estimates that, as a consequence, for up to a million employees earning between £64 and £81 per week, employers will no longer be liable for NICs. It also considers that the package will be revenue-neutral so that the burden for NICs on employers will remain unchanged.
- 11 For the employee, liability for NICs at 10 per cent will continue to arise on earnings above £64 per week, but the 2 per cent contribution on the first £64 of earnings will be abolished. This will benefit all contributors by £1.28 per week.

Working Families Tax Credit

- 12 The WFTC will be introduced in October 1999 to replace Family Credit. Initially, it will be paid on the same basis as Family Credit – to the mother – but from April 2000 it will be payable through the payroll system. The structure of the WFTC is set out in Table A4.1. In general, families on low incomes where the main earner works for more than 16 hours a week will be entitled to a tax credit for the adults (or adult) in the household, and a further tax credit, ranging in value depending on age, in respect of each child. As with Family Credit, there will be an additional credit for those earners working more than 30 hours a week.

Table A4.1

Structure of WFTC (£ per week; 1998–99 prices)	
Basic tax credit (one payable per family)	48.80
Tax credits for each child aged	
0–11	14.85
11–16	20.45
16–18	25.40
30 hours tax credit	10.80
Taper (amount of credit withdrawn as % of every additional £1 of net income in excess of threshold)	55 per cent

Source: HM Treasury, 1998b

- 13 The tax credit will start to be withdrawn when the family's net income, excluding the WFTC, exceeds £90 a week. The withdrawal rate for each additional pound of net earnings will be 55 per cent. This contrasts with a withdrawal rate for Family Credit of 70 per cent of any income in excess of £77.15 a week.
- 14 The WFTC will include a childcare tax credit to provide more generous support for childcare through the tax system than that offered by Family Credit. The childcare tax credit will provide support over and above the basic adult, child and thirty-hour credits. It will be worth 70 per cent of eligible childcare costs, subject to an overall limit on these costs of £100 per week for one child and £150 a week for two or more children. The maximum childcare support, therefore, will be £70 a week for a family with one child; £105 for a family with two or more children.
- 15 Any lone parent working 16 hours a week or more, and paying for childcare, will be eligible for the childcare tax credit. Couples will also be eligible where both partners are working 16 hours or more a week.
- 16 The childcare tax credit will be an integral part of the WFTC. It will be added to the basic and child credits and withdrawn on the same tapered basis. In practice, all families eligible for the WFTC will be entitled to a tax credit worth at least 70 per cent of any eligible childcare costs they may incur. The childcare tax credit will provide support much further up the income distribution than Family Credit. For example, a couple earning £450 a week with two young children might receive as much as £45 a week (see example 3 in Annex C).

Disabled Person's Tax Credit

- 17 The Disabled Person's Tax Credit (DPTC) will be introduced in October 1999 alongside WFTC. It will replace, and provide more generous support than, DWA. Its structure will mirror that for WFTC, with the same rates of credit, income thresholds and tapers.

Annex A

Income Tax

Tax allowances	Annual value (£) 1998/99
Personal allowance	4,195
Married couple's allowance (MCA) (allowable in addition to the two personal allowances applicable to a couple)	1,900
Additional personal allowance (APA) (allowable where the individual is single but has a child, or where one of a couple is ill and unable to work)	1,900
Widow's bereavement allowance (WBA) (additional allowance for the year of bereavement and following year)	1,900
Blind person's allowance (BPA)	1,330
Rate of income tax (%)	Annual taxable income bands (£)
20	up to 4,300
23	4,301–27,100
40	over 27,100

Notes:

- Since April 1994, the MCA (and APA, WBA) has been given as tax relief against the overall tax liability at a fixed rate – 15% for 1998/99. Its maximum worth is £1900 x 15% = £285 which is *deducted from the tax due*. The rate of this relief reduces to 10% in 1999/2000.
- The value of each allowance is a maximum, only available where the individual has sufficient tax liability to use the full allowance.
- Higher rates of personal and married couple's allowances apply for those aged 65–74 and 75 years and over.

Annex B

National Insurance 1998/99

Total earnings in employment for which NIC liability arises	Employee's contribution	Employer's contribution
0 to £63.99	Nil	Nil
£64.00 to £109.99 (£64.00 is termed the <i>Lower Earnings Limit</i>)	2% on the first £64.00 of total earnings plus 10% on earnings above £64.00	3%
£110.00 to £154.99	2% on the first £64.00 of total earnings plus 10% on earnings above £64.00	5%
£155.00 to £209.99	2% on the first £64.00 of total earnings plus 10% on earnings above £64.00	7%
£210.00 to £465.00	2% on the first £64.00 of total earnings plus 10% on earnings above £64.00	10%
Over £465.00 (£465.00 is termed the <i>Upper Earnings Limit</i>)	Nil	10%

Notes:

- Liability for NICs exists only where the earnings in that employment reach the Lower Earnings Limit. Thus where an individual has two jobs, paying £35 and £65 per week respectively, liability for NICs will exist only on the earnings of the second job.
- The above represents the level of contribution where the individual remains in the State Earnings-Related Pension Scheme (SERPS). Where the employee is a member of a company or personal pension scheme which is contracted-out of SERPS, a lower rate of employer and employee contribution applies, or the full rate is deducted and a percentage rebate is paid to the pension scheme by the Department of Social Security.

Calculating Entitlement to the Working Families Tax Credit

Example 1: Lone parent with one child under 11, working part-time and earning £90 a week. Aggregate income will consist of:

Earnings	£90.00
<i>less national insurance</i>	£2.60
Net income (1)	£87.40
WFTC (2)	£63.65
<i>of which basic tax credit</i>	£48.80
<i>child tax credit (0-11)</i>	£14.85
Child Benefit (3)	£13.95
Total Income (1+2+3)	£165.00

Example 2: A one earner couple earning £220 a week, with two children aged under 11. Aggregate income will consist of:

Earnings	£220.00
<i>less national insurance</i>	£15.60
<i>and gross income tax</i>	£25.91
Net income (1)	£178.49
WFTC (2)	£40.63
<i>of which basic tax credit</i>	£48.80
<i>2 child tax credits</i>	£29.70
<i>30 hour tax credit</i>	£10.80
<i>less 55% of excess of (1) over £90</i>	£48.67
Child benefit (3)	£23.25
Total Income (1+2+3)	£242.37
Net income tax	-£14.72

Example 3: Two earner couple, with the father earning £250 a week and the mother £200 a week. Two children under 11. Eligible childcare costs of £150 a week. Aggregate income will consist of:

Earnings (father)	£250.00
<i>less national insurance</i>	£18.60
<i>and gross income tax</i>	£32.81
Earnings (mother)	£200.00
<i>less national insurance</i>	£13.60
<i>and gross income tax</i>	£24.97
Net family income (1)	£360.02
WFTC (2)	£45.79
<i>of which basic tax credit</i>	£48.80
<i>2 child tax credits</i>	£29.70
<i>30 hour tax credit</i>	£10.80
<i>childcare tax credit (70% of £150)</i>	£105.00
<i>less 55% of excess of (1) over £90</i>	£148.51
Child benefit (3)	£23.25
Total Income (1+2+3)	£429.06
Net income tax	£11.99

Source: HM Treasury, 1998b

Appendix 5

A Century of Minimum Wage Legislation in the UK

1 Statutory support for minimum wage levels in the UK began in modern times with the Fair Wages Resolution of 1891. It required employers engaged on government contracts to pay at least the wage level generally recognised for the sector or locality concerned. This Resolution was followed in 1909 by the Trade Boards Act which established boards for specific industries to fix minimum wage levels. Trade Boards (later called Wages Councils) existed until their abolition in 1993. Three separate Wages Boards for agriculture in Northern Ireland, England and Wales, and Scotland were established in 1939, 1948 and 1949 respectively, and these continue to exist. At their peak in 1953 there were 66 Wages Councils covering 3.5 million workers in Great Britain, and a further 400,000 were covered by the Agricultural Wages Boards. This appendix reviews the historical development of statutory wage regulation, the Wages Councils and the pay structures which they provided, the operation of the Wages Councils and the method of enforcement of Wages Council orders.

History of Statutory Wage Regulation

2 Although statutory wage regulation existed in the UK in pre-industrial times, in the early years of the nineteenth century the wage-fixing powers of local magistrates were abolished in favour of a free market. For the rest of the century there were no attempts at statutory intervention in pay determination, but in the 1880s increasing concern emerged about the plight of the low paid in the so-called 'sweated trades'. Statutory regulation of pay was to take two main forms: a requirement for employers working for the government on public contracts to pay 'fair wages' to their workers; and a system of Wages Boards which set minimum pay levels for specific industries.

3 The debates at the turn of the century about the establishment of such wage regulation revolved around the degree to which the state should intervene in the normal mechanism of the labour market. A Select Committee on the Sweated Trades appointed in 1888 opposed legal regulation of wages in its 1890 report, but recommended a system of Fair Wages Resolutions for employers engaged on public contracts. The first such Resolution was adopted by the Government in 1891. In 1906 an inquiry by the Earnings and Hours Committee made authoritative wage data available for the first time and indicated the scale of the problem of low pay. A report by the Select Committee on Homework in 1908 showed that 'sweating' existed among both homeworkers and factory workers, and it recommended the

establishment of Trade Boards in specific industries to fix minimum pay levels.

4 Legislation was finally passed in 1909 by the Liberal Government. The objective of the reform was not to establish a national wage floor but to provide protection for those unable to defend themselves through collective organisation. While there were calls for a national minimum wage at the time, these were rejected in favour of the sectoral approach. The long-term aim was for the Boards to be replaced by voluntary collective bargaining between employers and unions at industry level. This original aim of providing 'surrogate' collective agreements for those too weak to engage in collective bargaining remained uppermost until 1979.

5 The 1909 Trade Boards Act provided for the formation of four Trade Boards in manufacturing covering 20,000 workers. These Boards were made up of equal numbers of employers' and workers' representatives and a number of independent members. The Fair Wages Resolution was also revised in 1909. In 1913 five more Trade Boards were added. During World War I both munitions workers and agricultural workers were given minimum wage protection.

Post-World War I

6 In 1918 the Trade Boards (Amendment) Act made it easier for the Minister of Labour to create additional Boards. It was the explicit intention of the Act to encourage the growth of collective bargaining in the industries concerned, and Boards could be established not only where pay was low but also where collective bargaining was weak or non-existent. The scope of Wages Orders was, furthermore, extended to include piece rates, overtime rates, fall-back rates and the fixing of basic hours of work. In 1919 a National Industrial Conference of government, employers and trade unions endorsed the concept of a national minimum wage, but no legislation was enacted. By 1921 a total of 63 Trade Boards were established, covering some three million workers (Institute of Personnel and Development, 1991).

7 From 1922, with the onset of the post-war depression, the rate of formation fell sharply. The 1922 Cave Committee recommended that no more Boards should be established and argued that wage regulation should be left to voluntary collective bargaining. Between 1924 and 1939 eight new Boards were established including the Road Haulage Wages Board. Some Boards ceased to exist during the same period; as a result, the total number of Boards declined to 47 by 1939.

- 8 In 1924 separate legislation, the Agricultural Wages (Regulation) Act 1924, established a system for setting 'subsistence wages' at county level for farm workers. In 1938 the Holidays with Pay Act gave the Trade Boards the power to fix holiday entitlement and in 1939 the Northern Ireland Agricultural Wages Board was established. In 1939 the powers of the Boards were overtaken by wartime legislation requiring compulsory arbitration.

Post-World War II Developments

- 9 Major changes took place following the Labour election victory in 1945. The Wages Act 1945 empowered the Minister of Labour to establish Wages Councils (as opposed to Trade Boards) if it was considered that existing voluntary collective bargaining arrangements were at risk. It also allowed employers and unions to seek jointly the abolition of a Wages Council where collective bargaining had been established. The most important element, however, was the increased scope for the Councils to settle all aspects of pay, hours and holidays. There was similar legislation in Northern Ireland. In 1946 the Fair Wages Resolution was revised. In 1948 the Agricultural Wages Act established the Agricultural Wages Board for England and Wales. This, together with a similar Act in Scotland in 1949, led to some 400,000 farm workers being covered by minimum terms and conditions in Great Britain (Institute of Personnel and Development, 1991).
- 10 At their peak in 1953 the number of Wages Councils had increased to 66, covering 3.5 million workers. The major sectors covered were retail distribution, catering and hotels, clothing, laundries and road haulage. The system was consolidated by the Wages Council Act 1959 (Bayliss, 1962).

Criticism of Wages Councils

- 11 During the 1960s and 1970s attitudes towards the Wages Councils changed considerably. There was concern about the effectiveness of the Councils in tackling low pay, the resistance of employers to any real improvement in wage levels for those within their scope and the increasing complexity of the Wages Orders. The unions argued that voluntary collective bargaining would be a more effective way of helping the low paid and both the report by the Royal Commission on Trade Unions and Employers' Associations (1968; also known as the Donovan Report) and the report on low pay by the National Board for Prices and Incomes in the same year agreed. The Donovan Report portrayed the Wages

Councils as both ineffective in remedying low pay and an obstacle to the development of collective bargaining. In 1969 the Labour Government established an inquiry to examine the idea of a national minimum wage. A report was published, but no legislation was forthcoming (Department of Employment and Productivity, 1969).

- 12 The Industrial Relations Act 1971 made it easier to abolish Wages Councils and encouraged the establishment of collective bargaining machinery. The Commission on Industrial Relations, established by the Act, recommended the elimination of five Wages Councils, and between 1974 and 1979 the Labour Government abolished or merged a number of Councils. The 1975 Employment Protection Act enabled Councils to fix, in addition to minimum pay and holidays, 'any other terms and conditions'. The Act also gave the Secretary of State the power to convert Wages Councils into Statutory Joint Industrial Councils (SJICs) as a move towards fully fledged collective bargaining.
- 13 Schedule 11 of the 1975 Act also provided that employers and independent trade unions, representing a substantial proportion of the employers or workers in a trade or industry, could bring a claim to the Central Arbitration Committee (CAC) that an employer was not observing the recognised terms and conditions of employment, or was paying less than the 'general level' in a trade or industry where there were no recognised terms and conditions. The CAC was empowered to make a legally binding award. In the final period of the Labour Government's incomes policy in the late 1970s, unions made increasing use of both the Fair Wages Resolution and Schedule 11 as a route round government pay limits. In some cases, employers and unions colluded to take Schedule 11 claims to the CAC, and in others claims were initiated by employers. In 1977 the number of Schedule 11 references reached 742; the following year the number of Fair Wages Resolution references reached 414.
- 14 The Wages Councils Act 1979 gave the Advisory, Conciliation and Arbitration Service (ACAS) the power to examine the operation of Wages Councils. Under the Act, ACAS was empowered to recommend the setting up of SJICs without independent members, as a half-way house to full collective bargaining. But no SJICs were formed. Between 1979 and 1983 mergers involving 18 Wages Councils and one abolition left 26 Councils in Great Britain and nine in Northern Ireland with, in addition, the three Agricultural Wages Boards.

Road to Abolition

- 15 The election of a Conservative Government in 1979 led to a further change in approach. In 1980 Schedule 11 of the Employment Protection Act was repealed and in 1983 the Fair Wages Resolution was rescinded. By 1985 the Government was advocating the abolition of the remaining Wages Councils and a consultative paper was issued setting out options for abolition or reform. Outright abolition was not pursued, but Part 2 of the 1986 Wages Act made major changes to the Wages Councils. These included the following: excluding workers under the age of 21 from the scope of the Councils; restricting Councils to setting a single minimum hourly rate, a single hourly overtime rate and a maximum accommodation charge offset; requiring Councils to consider the impact on jobs of the rate set; and introducing a simplified procedure for abolishing or changing the scope of a Council, giving the Secretary of State the power 'to consult such persons or organisations as he considers appropriate'. ACAS's statutory role in advising the Secretary of State on the creation, variation or abolition of Councils was also ended. Before passing the 1986 Act the Government was required to give notice of its intention to deratify the International Labour Organisation (ILO) Convention No. 26 requiring signatories to maintain minimum wage-fixing machinery. The three Agricultural Wages Boards were unaffected by the 1986 legislation.
- 16 The 26 Wages Councils in Great Britain, covering some 2.5 million workers, and the nine in Northern Ireland covering 35,000 workers, continued to issue Wages Orders. Two of the Councils (the Flax and Hemp Wages Council and the Lace Finishing Wages Council), however, were adjourned indefinitely from 1986 and the two sides negotiated voluntary agreements in these industries. In 1988 a government consultation paper was issued which proposed the abolition of the remaining Councils, and in 1993 the Trade Union Reform and Employment Rights Act abolished the remaining Councils in Great Britain. The nine Wages Councils in Northern Ireland ceased to exist in 1994 as a result of the Industrial Relations (Northern Ireland) Order 1993. Although the three Agricultural Wages Boards were also reviewed in 1993, it was decided that they should continue.

Coverage of Wages Councils

- 17 At the time of their abolition, the 26 Wages Councils in Great Britain and the nine in Northern Ireland (excluding those in agriculture), covered the number of employees indicated in Table A5.1.

Table A5.1

Coverage of Wages Councils at Abolition	
a) Great Britain	
Wages Council	No. of workers
Aerated Waters	4,400
Boot and Shoe Repairing	5,100
Button Manufacturing	1,000
Clothing Manufacture	118,500
Coffin Furniture and Cerement Making	200
Cotton Waste Reclamation	300
Flax and Hemp	400
Fur	800
General Waste Materials Reclamation	13,000
Hairdressing Undertaking	69,000
Hat, Cap and Millinery	4,500
Lace Finishing	900
Laundry	24,500
Licensed Non-residential Establishment	538,000
Licensed Residential Establishment and Licensed Restaurant	417,000
Linen and Cotton Handkerchief and Household Goods and Linen Piece Goods	2,800
Made-up Textiles	3,500
Ostrich and Fancy Feather and Artificial Flower	500
Perambulator and Invalid Carriage	2,000
Retail Bespoke Tailoring	4,000
Retail Food and Allied Trades	490,000
Retail Trades (Non-food)	736,000
Rope, Twine and Net	2,200
Sack and Bag	1,000
Toy Manufacturing	11,500
Unlicensed Places of Refreshment	110,000
Total Coverage:	2,561,100
b) Northern Ireland	
Wages Council	No. of workers
Baking	840
Boot and Shoe Repairing	40
Catering	15,900
Clothing Manufacturing	8,800
Laundry	320
Linen and Cotton Handkerchief and Household Goods and Linen Piece Goods	1,050
Paper Box	720
Road Haulage	7,000
Sugar Confectionery and Food Preserving	170
Total Coverage:	34,840

Note: Numbers have been rounded.

- 18 At abolition, the major Councils, each covering more than 100,000 workers in Great Britain, existed for the clothing, retail, and hotels and catering sectors. Together these accounted for 2.3 million workers (approximately 90 per cent of the total).

Terms and Conditions of Employment Covered

- 19 The 1979 legislation defined 'remuneration' as the amount obtained in cash by the worker from his employer. This implied that any remuneration could count towards the minimum rate. The Act also allowed Wages Councils to establish detailed terms and conditions, for the workers in their scope, including separate rates for different grades of worker or levels of skill, young workers, those working shifts, and those working in London. Hence the definition of remuneration was effectively redefined by the Wages Council Orders as a series of minimum rates for different types of worker. The pre-1986 Wages Orders were, therefore, complex and detailed and ran to many pages. The 1986 Act substantially limited this freedom to set a range of rates, leaving just a basic minimum rate for all adult workers defined in the Wages Orders as being 21 and over, regardless of grade, skill level, or location, together with a minimum rate for overtime hours and a maximum deductor for the provision of accommodation. These Orders consisted of a single, double sided page.

Operation of the Councils

- 20 The composition of the Boards and Councils remained virtually the same from 1909 until their abolition in 1993 (the Councils in Northern Ireland continued to operate until 1994), with equal numbers of employers' and workers' representatives and several independents. At abolition the administration of the Councils was carried out by the Office of Wages Councils in the Department of Employment.
- 21 The Office of Wages Councils, staffed by civil servants, provided the secretariat for the Councils and its main function was to operate the statutory procedures which came into operation once a Council had decided what to propose to the Minister. There were two ways in which Wages Orders were enforced: by publicising the new rates and through inspection. Inspection was carried out by the Wages Council Inspectorate. There were a number of Wages Council Inspectors in each of the Department of Employment's regional offices and at

least one senior Inspector. Each region had to fulfil a quota of routine inspections as well as investigate all complaints.

- 22 The size of each Wages Council's membership varied according to the size of the industry, but other factors played a part, such as the variety of occupations covered and the number of different categories of employer. The smaller Councils had around five members for each side while the largest had up to sixty members (thirty on each side). The maximum number of independent members permitted was five, of whom one was appointed as Chairman. Almost forty per cent of Wages Councils had between twenty-two and thirty members, who were appointed for three-year periods.
- 23 The majority of Wages Council members were nominated by trade unions or employers' associations and appointed by the Secretary of State. While the Councils normally included representatives from the actual trades involved, in many cases the members were professional negotiators from either the unions or employers' associations and had no direct experience of working in the industries concerned.
- 24 Council meetings were held when the Secretary of the Wages Council received a request from one of the sides for a meeting, usually a claim by the workers' side for an increase in the basic minimum rate. The employers' side responded to the claim and it was discussed in the Council.
- 25 Decisions were reached by a vote of the employer and worker sides, but if no agreement was reached the independent members had the casting vote. A quorum consisted of one independent member together with at least a third of all representative members. Once agreement by the Council on a change to the Order was made, a draft Order was issued and written submissions invited from interested parties in order to allow any objections to be made. These objections had to be made within two weeks of the draft Orders being published. The Minister had no powers to amend the Order, but he could refer it back to the Council for reconsideration. Once the Order had been approved by the Minister, it typically took some ten weeks for it to become effective.
- 26 Notices of the Wages Orders were received by employers in the form of both pamphlets and posters which had to be displayed prominently in the workplace. The notices informed employers and workers of the new rates and conditions.

Enforcement

- 27 The Wages Order defined what deductions an employer could make for accommodation provision. Apart from deductions of tax and NI contributions, other deductions could only be made where they were authorised in writing by the worker. A higher amount for living accommodation could be agreed by the employer with the worker, but any deduction or payment more than the maximum deduction allowed under the Order could not result in the worker being paid less than the minimum rate. If underpayment of the minimum rate was suspected, a worker could make application to an Industrial Tribunal or take civil action through the Small Claims Court to recover the sum.
- 28 Failure by an employer to observe the terms of an Order was a criminal offence. Until 1986 all offences involving failure to observe an Order carried a maximum fine of £20, the same amount as in 1909. This was raised to £400 in the 1986 Wages Act. Under Part II of the 1986 Act, an employer found guilty could be ordered to pay the deficient amount for a period going back no more than two years.
- 29 Wages Inspectors had legal rights to free access to the place of work and the records of hours and wages, which had to be kept by an employer for three years. Inspectors also had the power to interview workers or their representatives, alone or in the presence of any other person, and to take signed statements from them. In practice there were very few prosecutions by the Inspectorate for underpayment; in the period from 1979 to 1992 the average annual number of completed prosecutions was under seven (Hansard, 22 October 1993: col 359–60). Inspectorate policy was to achieve compliance through advice and persuasion rather than legal action.
- 30 The number of Inspectors in the 1950s was around 200, but this had fallen to 158 by 1979 and 65 by 1992. The number of establishments covered fell from approximately 500,000 in the early 1960s to 400,000 by 1992 (Hansard, 22 October 1993: col 355–6). In 1992, 32,000 establishments were checked, of which 19,000 had actually been visited; the others were checked through a postal questionnaire or a visit to the head office of the organisation (Hansard, 22 October 1993: col 357–8). The number of workers whose pay was checked by the Wages Inspectorate in 1992 was just over 400,000, of whom nearly 15,000 (4 per cent) in some 7,000 establishments were found to be underpaid.

Appendix 6

Minimum Wage Systems in Other Countries

- 1 The Commission was aided in its analysis of the potential impact of the National Minimum Wage by the large body of research into the effects of minimum wages in other countries. This appendix focuses on the key operational features of minimum wage systems in selected countries.
- 2 A number of countries, for example Germany, have collective sectoral wage agreements with statutory backing. Although these systems are of some interest, in this appendix we have focused on those countries with *national* minimum wages, as they are most relevant to the Commission's analysis and recommendations.
- 3 We looked closely at the national minimum wage systems in eleven countries: Australia, Belgium, Canada, France, Greece, Japan, the Netherlands, New Zealand, Portugal, Spain and the USA. These are the major countries with a National Minimum Wage within the European Union (EU) and the Organisation for Economic Co-operation and Development (OECD). Unless otherwise noted, all comparative references refer to these countries. In addition, however, we examined a number of studies, including the OECD evidence to the Commission, which included a wider range of countries. We were also helped with our research by various British Embassies. Unless stated otherwise, the information contained in the tables in this appendix is derived from material provided by the relevant British Embassies.
- 4 We have also looked at the Irish National Minimum Wage Commission's April 1998 recommendations with interest. A case study on their report is included in this appendix; the Irish Government has not yet produced its response to the Commission's report.
- 5 The lessons that can be learned from international comparisons of minimum wages are limited. In general, the schemes are long established and operate against different social, economic and political backgrounds. In addition, the impact of the minimum wage in other countries can be assessed only in the context of other labour market variables, such as the earnings distribution, payroll taxes, unemployment benefit levels and the administration of social security benefits. For example, the OECD reports that payroll tax reductions are an instrument used in France, Belgium, the Netherlands and Ireland to reduce non-wage labour costs and stimulate the employment of low-productivity workers (OECD, 1998b). Furthermore, comparable data were not always available even for the eleven countries.

- 6 Nevertheless, as the OECD points out, there are a number of interesting observations from international experience:

- A minimum wage may price low-productivity workers out of jobs and, if the wage floor set by statutory minimum wages is too high, this may have detrimental effects on employment, especially among young people. Hence there may be a case for differentiating the minimum wage by age.
- There is evidence that countries with relatively high minimum wages tend to have less earnings inequality and a lower incidence of low pay.
- Enforcement of minimum wages is a major issue that needs to be considered.
- There are a range of instruments other than minimum wages which countries use to bolster the demand for low-skilled workers and/or their earnings from employment.

Rates, Impact, Relation to Average Wages and Definitions

- 7 Most minimum wage systems have been in place for many years, usually decades, which makes assessments of the effects of the introduction of minimum wages difficult (see Table A6.1).

Table A6.1

Date of Establishment of Minimum Wage	
Country	Year
Australia	1966 (form of minimum wage since 1907)
Belgium	1975
Canada	Women: 1918–1930; Men: 1930s–1950s
France	1950 (1970 in current form)
Greece	1953 (1990 in current form)
Japan	1959 (1968 in current form)
Netherlands	1968
New Zealand	1945 (1983 in current form)
Portugal	1974
Spain	1963 (1976 in current form)
USA	1938

Sources: Australia: Dept of Workplace Relations and Small Business, Australia, 1998; all other countries: OECD 1998b

8 Minimum wages in Australia, Canada, France, Japan, Portugal, the Netherlands, New Zealand, Spain, and the USA are set by statute. Belgium and Greece have a hybrid system in which the minimum wage is set through a national agreement between the social partners, but is legally binding in the private sector; the public sector has its own agreements. There is regional variation in

minimum wage rates in Canada and Japan. A few states in the USA have established a minimum wage at a higher level than the federal minimum, while others have chosen a rate at or below the federal minimum wage; a rate below the federal minimum can only apply to industries excluded from the provisions of federal legislation (see Table A6.2).

Table A6.2

Status of Minimum Wages in Different Countries	
Country	Status
Australia	Statutory (underpins sectoral minima)
Belgium	Collective national agreement enforced by statute (underpins sectoral minima)
Canada	Statutory
France	Statutory
Greece	Collective national agreement enforced by statute
Japan	Statutory
Netherlands	Statutory
New Zealand	Statutory
Portugal	Statutory
Spain	Statutory
USA	Statutory

Sources: Australia: Dept of Workplace Relations and Small Business, Australia, 1998; all other countries: OECD, 1998b

9 There is significant variation in the levels of minimum wages across countries (see Table A6.3).

Table A6.3

Minimum Wages Per Hour – December 1997 ^a					
Country	Local currency rate per hour		Normal period/ (rate if not hourly)	£ rates per hour ^b	£ rates (PPP) ^c per hour
Australia	Aus. dollar	8.99	week (359.40)*	3.55	4.77
Belgium	Belg. franc	250	month (43,343)	4.09	4.56
Canada	Can. dollar	6.47	hour	2.74	3.80
France	French franc	39.43	hour	3.98	3.97
Greece	drachma	774	day (6,195)	1.66	2.18
Japan	yen	635	hour	2.95	2.41
Netherlands	guilder	13.63	week (517.8)	3.88	4.27
New Zealand	NZ dollar	7.00	hour	2.46	3.18
Portugal	escudo	327	month (56,700)	1.08	1.65
Spain	peseta	384	month (66,630)	1.53	2.10
USA	dollar	5.15	hour	3.11	3.67

Sources: *Dept of Workplace Relations and Small Business, Australia 1998; all other data OECD, 1998b

Notes:

a These figures are for end 1997 for comparative purposes. Many countries will be uprating, or have uprated, their minimum wages for 1998 (e.g. Spain's monthly 1998 rate is now Pta 68,040).

b Calculated using exchange rates at end December 1997.

c PPPs refer to Purchasing Power Parities for final private consumption expenditure for December 1997. PPPs should be taken as indicative rather than precise.

10 Conversion to sterling using purchasing power parities (PPPs) shows that hourly rates vary from around £1.65 in Portugal, a little over £2.00 an hour in Greece and

Spain, about £3.70 per hour in the USA and Canada, to over £4.50 in Belgium and Australia (see Figure A6.1).

Figure A6.1

Minimum Wages at EPPPs, End 1997



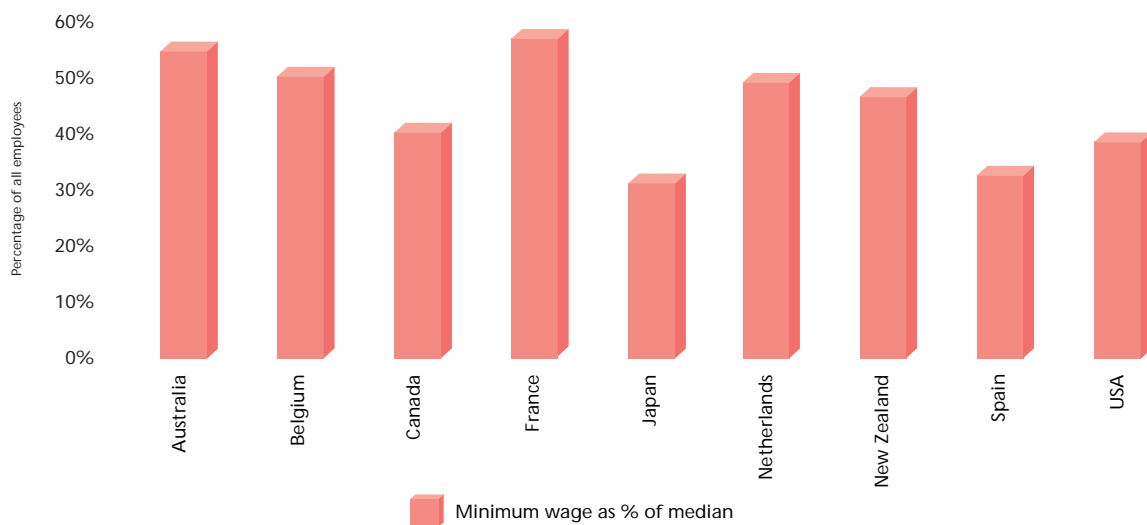
Source: OECD, 1998b

11 The ratio of the minimum wage to full-time adult median earnings varies considerably from around 57 per cent in France to 32 per cent in Spain. The OECD report

that the ratio of minimum wages to average wages has declined over the past 10 years, except in France (OECD, 1998b; see Figure A6.2 and Table A6.4).

Figure A6.2

Minimum Wages as a Percentage of Median Earnings, Mid-1997



Source: OECD, 1998b

Table A6.4

Minimum Wages as a Percentage of Full-time Median Earnings, Mid-1997	
Country	Minimum wage as % of full-time median earnings (including bonuses), mid-1997
Australia	54
Belgium	50
Canada	40
France	57
Japan	31
Netherlands	49
New Zealand	46
Spain	32
USA	38

Source: OECD, 1998b

Note: Average earnings data for 1997 based on extrapolated data for earlier years. Data not available for Portugal and Greece.

- 12 The proportion of the workforce on the minimum wage varies considerably from country to country. Young workers are far more likely to be at the minimum wage level.
- 13 Estimates of the percentage of the workforce on a country's minimum wage are indicative rather than precise. The figures are based on different survey data

(sometimes using different methodology) across countries. The incidence of work paid at the minimum wage will fluctuate over time and across countries as a result of changes in the real value of the minimum wage, and through the course of the business cycle as a result of changes in the earnings distribution and other labour market changes. OECD's data (OECD, 1998b) at Table A6.5 on the incidence of minimum level wage employment are available for fewer countries than similar data gathered by Dolado et al. (1996) at Figure 6.3, but the OECD data are more recent.

Table A6.5

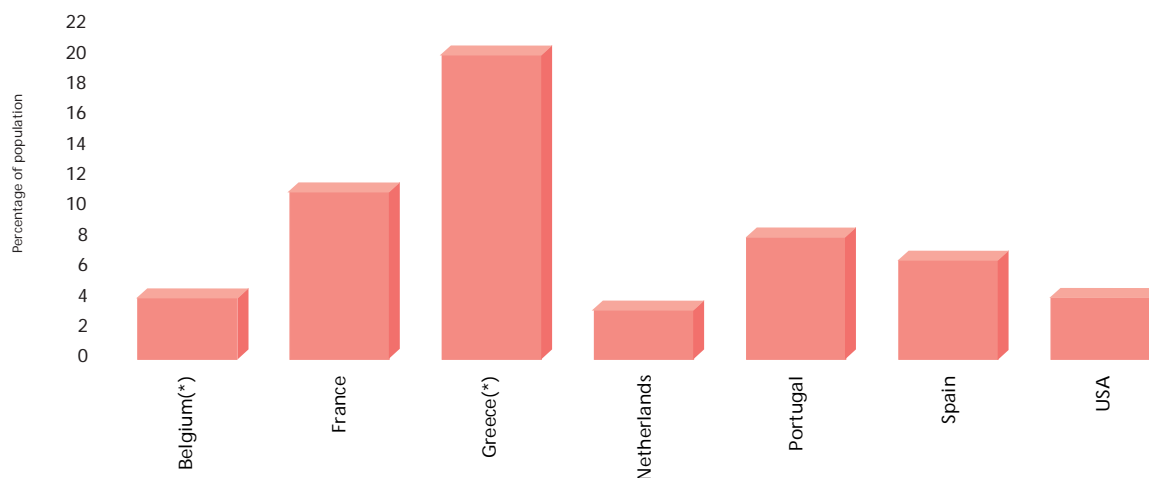
OECD Estimates of Workforce At or Below the Minimum Wage	
Country	% of workforce at minimum wage level or less
Australia	3
France	11
Netherlands	3.7
Portugal	4.7
USA	5.1

Sources: Australia: Australian Dept of Workplace Relations, 1998; other countries: OECD, 1998b

Note: Netherlands data are for 1994, France and USA data for 1996, and Portugal data for 1997.

Figure A6.3

Estimates of Proportion of Population At or Near Minimum Wage 1993



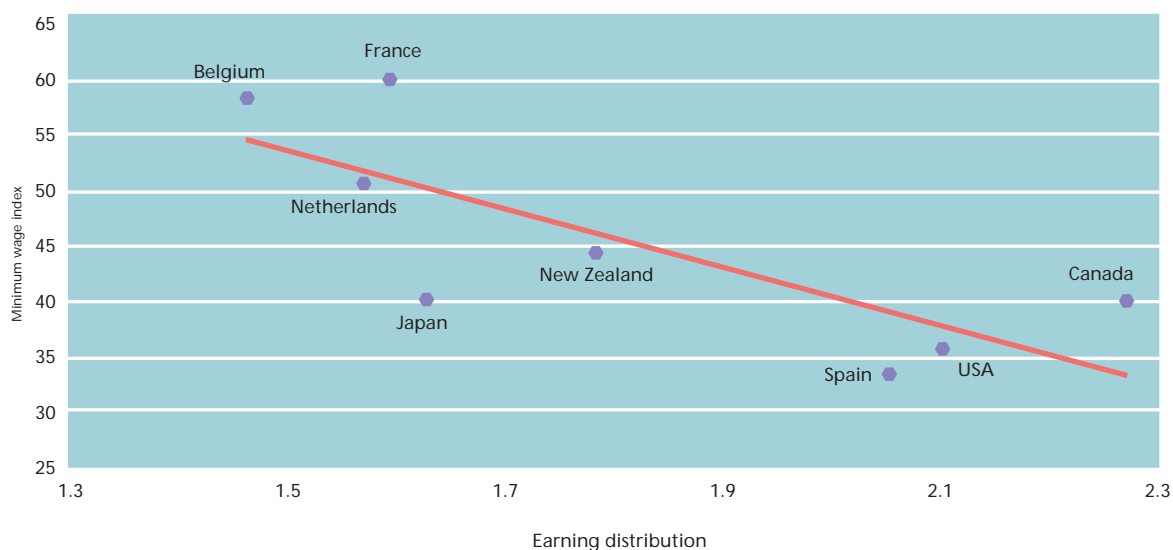
Source: Dolado et al., 1996

Note: *Belgium refers to 1992, Greece to 1995.

- 14 Depending on its level, the minimum wage is likely to affect the earnings distribution. Across countries there is some evidence that the higher the minimum wage as a proportion of average earnings, the narrower the earnings distribution (see Figure A6.4).

Figure A6.4

Minimum Wages and Earnings Distribution



Source: OECD, 1998b

Note: The index shows minimum wages as a percentage of median full-time earnings. The earnings distribution shows the ratio of median earnings to the upper limit of earnings received by the bottom 10 per cent of full-time workers.

- 15 There is significant variation in the normal averaging period for compliance with the minimum wage (see Table A6.6).

Table A6.6

Averaging Period for Minimum Wages	
Country	Period
Australia	40 hour week.
Belgium	Monthly (averaging a 38 hour week, but can vary slightly by sector).
Canada	Hourly.
France	Hourly.
Greece	Blue collar: per day; white collar: per month.
Japan	Alternatives: per hour, per day, per week or per month.
Netherlands	On basis of full month's work, disaggregated as necessary into weekly or daily rate. No hourly rate.
New Zealand	Alternatives: per hour, 8 hour day or 40 hour week.
Portugal	Monthly (or annual average where weekly hours are variable).
Spain	Alternatives: per day or per month.
USA	Hourly.

- 16 There is considerable variation in what counts towards the minimum wage across countries. A number of countries allow a lower rate to be paid if accommodation is provided (see Table A6.7).

Table A6.7

Definition of the Minimum Wage	
Country	Definition of the minimum wage
Belgium	Basic 'core minimum salary', normally excludes premia, bonuses and allowances unless they can be defined as remuneration for the normal performance of work. Different arrangements can be negotiated at either sectoral or company level.
Canada	Basic wage. Varies according to Province; legislation usually covers gratuities, call-in pay and deductions.
France	Earnings, including bonuses, tips and commission, and accommodation and meals; but excluding profit sharing bonuses, overtime, weekend working and night working premia and other compensatory payments.
Greece	Minimum wage excludes overtime hours and commission.
Japan	Minimum wage excludes bonuses, overtime, holiday pay and night working premia.
Netherlands	Earnings, including holiday, meals and housing allowances; but excluding all additional overtime and shift premia, bonuses and other compensatory payments.
New Zealand	Minimum wage can include piecework; but not merit bonuses, tips or other gratuities. The inclusion or exclusion of all other additional payments (such as premia, allowances and supplements) within the minimum wage is decided by the parties to the employment contract. Deductions can be made for board or lodging up to a maximum figure.
Portugal	Minimum wage does not include premia, bonuses, or other allowances, except sales commission and production bonuses. It can include the value of any food and lodging provided.
Spain	Basic wage, including piecework earnings, excluding all other payments. Overtime, shift and unsociable hours premia, profit shares, and all allowances (except sick pay, holiday pay and maternity pay) are excluded.
USA	A specific hourly amount, including incentive pay, tips and accommodation and meals; but excluding overtime, shift or unsociable hours premia, and all other allowances.

Note: The table summarises detailed regulations and should be regarded as illustrative.

- 17 As well as age, factors for special treatment include disability, public sector employment and training. But these specific exemptions relate only to a minority of the schemes (see Table A6.8).

Table A6.8

Exemptions from Minimum Wages	
Country	Exemptions
Australia	Some (well-paid) professional industries.
Belgium	Public-sector workers, apprentices, trainees and workers in sheltered workshops.
Canada	Variable, but mainly apprentices; certain groups of agricultural, hunting and fishing workers; some categories of provincial workers under some provincial regulations.
France	Public-sector workers; disabled workers and certain other groups like agricultural workers and merchant seamen (who are covered by separate rules).
Greece	Public-sector workers.
Japan	Disabled workers.
Netherlands	None.
New Zealand	Apprentices and other trainees.
Portugal	Disabled workers (covered under separate regulations).
Spain	None.
USA	Workers in smallest firms, organised camps (e.g. summer camps), recreational centres, religious/non-profit educational centres under certain circumstances (e.g. if they do not operate for more than seven months of the year) and some small categories of professional workers.

Note: The table summarises detailed regulations and should be regarded as illustrative.

- 18 Since many countries examined have no in-work benefits, minimum wages are the main method of tackling in-work poverty (see Table A6.9).

Table A6.9

Existence of Benefits for the Low Paid	
Country	In-work benefits
Australia	Some in-work benefits for families with children.
Belgium	None.
Canada	Tax credit for low paid.
France	None.
Greece	None.
Japan	None.
Netherlands	Some rent/childcare subsidies.
New Zealand	Independent Family Tax Credit (IFTC) for low income families.
Portugal	None.
Spain	Means-tested family benefit.
USA	Earned Income Tax Credit.

- 19 Minimum Wage uprating is usually through some kind of review at least annually, but variation occurs as to whether the process is formula driven or considers a range of labour market factors from country to country. In France, Greece, Japan, Portugal and Spain both price and wage movements are either explicitly or implicitly taken into consideration in regular reviews of the minimum rate. In Australia, New Zealand, Portugal and Spain, economic criteria – for example, the impact on employment, unemployment and competitiveness – are explicitly taken into account (see Table A6.10).

Table A6.10

Uprating of Minimum Wages	
Country	Method
Australia	Independent body considers economic factors and needs of low paid.
Belgium	Indexation combined with collective bargaining every two years.
Canada	Usually based on recommendation from provincial Labour Board from time to time, taking into account cost of living and views of employers and employees. OECD report that changes to minimum are relatively infrequent.
France	Automatic increase in line with inflation. On top of this, there is an increase of at least half the real increase in earnings.
Greece	Negotiation between unions and employers – twice yearly (usually in line with inflation).
Japan	Ministry of Labour considers retail price index and Spring wage round.
Netherlands	Ministry of Social Affairs uprates twice yearly taking account of increase in average wages, provided wages and/or the social security bill have not risen too fast.
New Zealand	Annual review is carried out each year by Minister of Labour, considering effect on those receiving MW and employment, training and macro-economy.
Portugal	Inter-ministerial annual review considers price rises and makes recommendation to the Economic and Social Council, which includes employees and employers, and which in turn makes recommendation to Prime Minister.
Spain	Government adjusts annually allowing for consumer prices, productivity, growth and general economic situation.
USA	Changes voted on by Congress occasionally.

- 20 Enforcement is often through some kind of Labour Inspectorate (see Table A6.11).

Table A6.11

Enforcement of Minimum Wages	
Country	Method of enforcement
Australia	Department of Workplace Relations and Small Business inspectors, and employees can refer to a Small Claims Court.
Belgium	Labour inspectorate.
Canada	Employees can sue for breach of contract.
France	Labour inspectorate (which is also responsible for general conditions of work, health and safety).
Greece	Labour inspectorate. Employers can be sued by employees or by inspectors.
Japan	Labour inspectorate.
Netherlands	Labour inspectorate. Employees can sue.
New Zealand	Labour inspectorate which can refer case to industrial tribunal at no cost to employee.
Portugal	Labour inspectorate.
Spain	Labour inspectorate.
USA	Department of Labour.

Treatment of Youth and Training

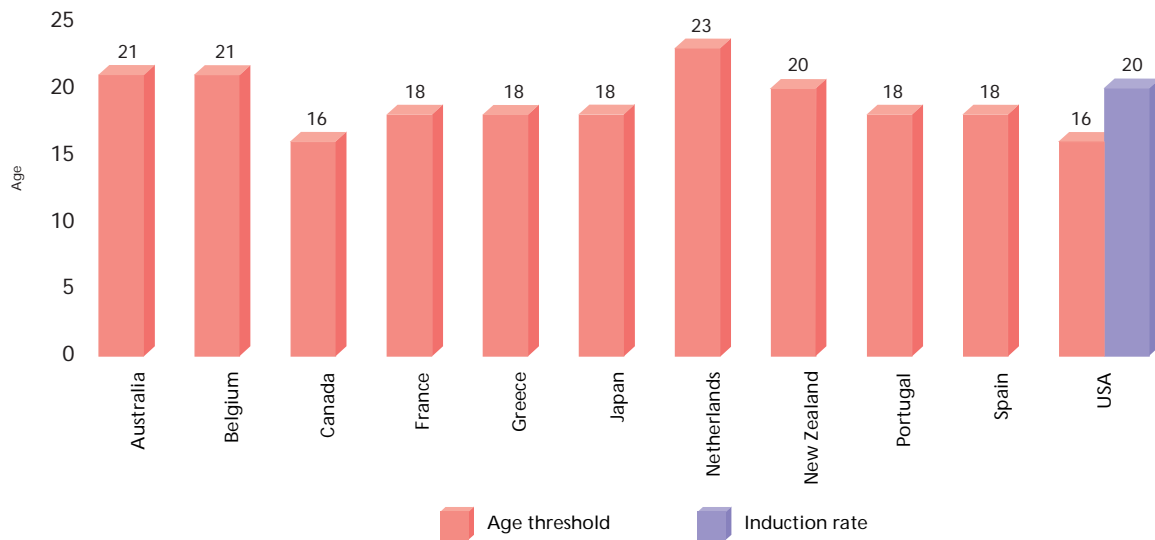
- 21 All eleven systems (except most Canadian Provinces) examined by the Low Pay Commission have some form of special treatment for workers below 18, with a maximum threshold – with one exception – of age 21 or below (see Table A6.12 and Figure A6.5).
- 22 Minimum wages usually apply at some rate at age 16 and above. Countries do not usually opt for age-related exemptions – only Greece has a complete exemption for under 18s.
- 23 Treatment of age thresholds, and to a lesser extent trainees, has changed over time in a number of countries. The Netherlands applied youth rates to under 23s, who were previously exempt, in the 1970s and lowered youth rates in the early 1980s. Spain raised the youth rate for 16 year olds to the same level as for 17 year olds in 1990 and recently abolished the apprenticeship rate. In 1994 New Zealand introduced a youth rate for 16–19s who were previously exempt from the minimum wage. In Portugal under 20s were also exempt until 1974. The USA reintroduced a 90-day induction rate for under 20s as part of the 1996/97 phased rise in the federal minimum wage.

Table A6.12

Age Variations Under Minimum Wage Systems	
Country	Treatment by age
Australia	Full minimum wage at 21. Below 21 a sliding scale from age 16 (40 to 50% of the minimum wage) through age 18 (65 to 80%) to age 20 (85 to 100%).
Belgium	Minimum wage applies at age 21 depending on length of service. There is a 6% deduction from the minimum wage for each year below 21.
Canada	Full minimum wage at all ages in most Provinces. Except for Alberta, Ontario, and North West Territories, youth differentials have been abolished because they are seen as illegal under 1982 Charter of Rights and Freedoms.
France	Full minimum wage at 18. Workers aged 16 receive 80%; workers aged 17 receive 90% (both for first 6 months only, then the full rate).
Greece	Full minimum wage at 18 (but variation by marital status). Exempt below 18.
Japan	Full minimum wage at 18. Under 18s and over 65s usually receive the lower regional minimum wage rather than the industry rate. (18–65s receive the higher of the regional/industrial rates.)
Netherlands	Full minimum wage at 23. Youth rates are 30% at 15, 45.5% at 18 and 72.5% at 21 (rates were reduced in 1981 and 1983).
New Zealand	Full minimum wage at 20. 16–19 year olds get around 60% of the main rates. Youth rate only introduced in 1994; youths previously exempt.
Portugal	Full minimum wage at 18. Workers below 18 receive 75%.
Spain	Full minimum wage at 18. 16–17s receive 89%. Lower rate for 16 year olds abolished in 1990.
USA	Full minimum wage at all ages except below 20 where lower rate <u>can</u> apply (approx. 80% of full minimum wage) for first 90 days in the job.

Figure A6.5

Age Full Minimum Wage Applies



24 In most cases, age and training are not linked. In the two countries where they are (France and Portugal) the cut off point is 25. The US takes a lower age, 20, as the cut

off point for its induction rate. A few countries have complete exemptions for apprentices (see Table A6.13).

Table A6.13

Trainees and Apprentices	
Country	Treatment of trainees/apprentices
Australia	No special treatment.
Belgium	Apprentices/accredited trainees exempt.
Canada	Varies by Province: usually no special treatment. (Nova Scotia allows a lower rate for inexperienced employees; Alberta allows lower rate for employees under 18 attending school; Ontario has a lower rate for students under 18 employed for not more than 28 hours per week.)
France	Lower rates for apprentices: a sliding scale from 25% of the SMIC for 16 year olds to 78% for 22–25 year olds in the final year of the apprenticeship contract.
Greece	No specific treatment, but minimum wage can vary by length of service.
Japan	Employers can apply for training exemption.
Netherlands	No special treatment.
New Zealand	Apprentices and some accredited trainees exempt.
Portugal	Workers 18–25 on recognised training courses: 80% of minimum wage.
Spain	Apprenticeship rate abolished in 1997. Previously apprenticeship contracts for under 25s allowed employer to pay 70% of the minimum wage in the first year, 80% in the second, and 90% in the third.
USA	Induction rate for under 20s: can receive lower minimum wage for first 90 days in job. (Induction rate not linked to formal training.)

Case studies

France

- 25 The French system of minimum wages traces its roots to 1848. The current system – the *salair minimum interprofessionnel de croissance* (SMIC), or minimum wage for growth – was adopted in 1970. It is updated annually by inflation plus at least 50 per cent of the real increase in blue-collar hourly wages. The French system also stipulates overtime rates for hours in excess of a 39 hour week.
- 26 The SMIC has increased relative to average wages over the last ten years. This is in contrast to most OECD countries where the ratio of minimum wages to average earnings has declined. The OECD said in its evidence to the Low Pay Commission that ‘studies of the French SMIC – which is just over 70 per cent of the average hourly wage in manufacturing – suggest a significant negative impact on youth employment and, in some cases, on overall employment’.

Ireland

- 27 The National Minimum Wage Commission was appointed by the Irish Government in July 1997 to advise on introducing a national minimum wage in Ireland. The Irish Government, on announcing the Commission, emphasised its concern for protecting vulnerable workers while protecting employment and competitiveness, especially that of small and medium-sized firms. The Commission’s report was published in April 1998; the Irish Government has not produced its response.
- 28 The Commission recommends a national minimum wage of around two-thirds median earnings to be introduced in April 2000. The precise level should take into account employment, general economic conditions and competitiveness. In current terms, two-thirds of median earnings represents I£4.40 per hour. Currently, 23 per cent of employees earn less than this amount and the cost of implementation is estimated to be around 4 per cent of the wage bill before any allowance for wage restoration. Although the recommendation is for an hourly rate, the report advises flexibility to take account of pay and other forms of remuneration across sectors so that, for example, pay can be calculated on a weekly basis in some cases.
- 29 The Commission recommends a separate minimum wage for under 18s set at 70 per cent of the full rate. It also proposes a separate training rate for job entrants without experience (including apprentices), regardless of age, of

75 per cent of the full rate in the first year of training and 80 per cent and 90 per cent in the second and third years respectively.

- 30 On updating, the report recommends that a statutory Minimum Wage Commission should be established. It should include representatives of unions, employers, government and independent members, and should review the rate at one or two year intervals taking account of trends in prices, overall economic conditions, employment and competitiveness.

Netherlands

- 31 The Dutch minimum wage was introduced in 1968. During its first two years of existence, the minimum wage applied only to workers 24 years old and above. In 1970 the age limit was changed to 23, and four years later statutory youth minimum wages were introduced. The two central objectives of these lower rates are to ease young persons’ access to the labour market and to discourage premature school leaving.
- 32 Youth rates were reduced in 1981 and 1983 and wages for young workers fell as a result. As part of a general policy of wage moderation, the Dutch minimum wage was reduced by 3 per cent in 1984 and frozen until 1989. The number of people earning the minimum wage has dropped in recent years from approximately 5 per cent of the workforce to 3.7 per cent in 1994.
- 33 The minimum wage is updated by a twice-yearly review which takes account of the increase in average wages, provided wages and/or the social security bill have not risen too fast. Various social security benefits (pensions, unemployment benefits, invalidity benefits) are proportionally linked to the minimum wage. This makes it difficult to disentangle the effect of changes in benefit from those in the minimum wage.

Spain

- 34 In 1963 a national minimum wage was introduced in Spain replacing an earlier system in which minimum wages varied by region and age. The *salario minimo interprofesional* is a statutory minimum wage set by the government in consultation with trade unions and employer organisations. In the words of the Workers’ Statute, its purpose is to protect wage earners and ensure ‘a guarantee of their purchasing power and participation in the economic development of the nation’.

- 35 As in the Netherlands, the level of various social security benefits is linked to the minimum wage which makes it difficult to assess the specific impact of the minimum wage.
- 36 The Spanish minimum wage has been of particular interest because in 1990 the minimum wage for those aged 16 and under was raised to the level for workers aged 17. There is some evidence of substitution of under 17s with older workers as a result (Dolado et al., 1996).

USA

- 37 The Federal minimum wage (US\$5.15 an hour) applies across all states, although eight have set their own higher minimum wages. Overtime pay after forty hours is stipulated at one and a half times the standard hourly rate.
- 38 An employer may credit a certain amount of the tips received by specified employees against the employer's minimum wage when certain conditions are met.
- 39 A youth minimum wage – US\$4.25 an hour – was re-established in 1996 for employees under 20 during the first ninety consecutive calendar days of employment with an employer; it was previously available in 1990–93. But employers generally do not seem to have used this provision, apparently because of recruitment and administrative difficulties.
- 40 The minimum wage is not automatically uprated. New levels of the minimum wage must be set by Act of Congress, and uprating can be a partisan issue. Before the two-stage uprating in 1996/97, the minimum wage was last increased in 1989. In March 1998, legislation was introduced containing President Clinton's proposal to increase the minimum wage by US\$1.00, to US\$6.15 an hour, in two equal instalments in the period up to 1 January 2000. The progress of the legislation is uncertain.
- 41 Some categories of small firms (under US\$500,000 turnover) are exempt from the minimum wage.
- 42 The minimum wage is currently just under 40 per cent of the hourly wage for manual workers in manufacturing and has tended to decline over time in relative terms.
- 43 A wide range of studies of the Federal minimum wage have come to different conclusions regarding its impact, and OECD's view is that evidence of employment effects is inconclusive.

Appendix 7

Earnings Components

Components	Description
Basic pay or salary	A fixed hourly, weekly, monthly or annual amount for working a set period of time. For many manual workers, there is often a single rate for each grade, but for other workers there may be pay progression (whereby a worker moves up a scale according to age, service, individual performance or the acquisition of new skills and competences). In some cases, pay progression is based solely on merit and there is no scale as such but rather a pay range.
Overtime and unsocial hours premia	Enhancements of the hourly rate to compensate workers for working above their contractual hours. Premia may add between a quarter and twice the hourly rate, according to when the additional hours are worked. The highest premia are normally paid for working weekends and bank holidays. Overtime payments have been consolidated into 'all-in' salaries in some organisations as a result of 'annualised hours' contracts and are considered to be part of basic pay.
Shift premia	Enhancements of the hourly rate to compensate workers for working at non-standard times (e.g. nights) or longer than usual work periods. Like overtime, shift premia have been consolidated in some organisations as a result of 'annualised hours' contracts.
Group/team bonuses	Bonuses paid to individuals in a group or team to reward productivity or other work targets. The bonus may vary according to the degree of achievement of the targets. Such payments may be based on profit-sharing or gainsharing arrangements. They may be paid at various intervals (e.g. hourly, weekly, monthly, quarterly).
Individual merit bonus payments	Bonuses paid to individuals to reward personal performance. They may be based on appraisal of achievement against objectives set. The amount will vary according to the performance achieved. Bonuses are often paid annually on the basis of the previous year's performance.
Profit-related pay (PRP)	That part of total pay which is linked to changes in the profits of the business in which a worker is employed. Schemes registered under the Inland Revenue rules can attract tax relief up to a maximum of 20 per cent of pay or £4,000, whichever is the lower. This tax relief is currently being withdrawn and will cease in the year 2000. PRP payments may be made at weekly, monthly, quarterly or annual intervals.
Payment by results (PBR)/piecework	Incentive payments related directly to the quantity of work achieved. Piecework may be paid simply by the task (i.e. the amount of work produced) but most schemes are related to the time taken for a particular task. Tasks are measured and standard times agreed for each task, against which workers are assessed. There may be minimum earnings level guarantees. In some cases traditional piecework systems have been replaced by Measured Day Work, which provides more stability of earnings. Piecework has been in decline in many industries for some time.
Commission/sales bonuses	Incentive payments linked to the volume or value of business achieved. They are most common in sales occupations. In some cases, the worker may be paid entirely by commission but in other cases it may be a variable amount paid in addition to the basic time rate.
Tips/gratuities	Tips or gratuities may be paid in one of three ways – 1) through a service charge for customers levied by the employer and paid out through the payroll; 2) through the 'tronc' system whereby all tips and voluntary 'gifts' are collected centrally by the employer and then redistributed as cash; 3) where the tip is made directly by the customer as a 'gift' to the worker. Although in the last case the payments are not made by the employer, the Inland Revenue treats such 'gifts' as taxable emoluments because they derive from the worker's employment.

Components	Description
Benefits	A wide range of benefits are provided by employers, some of which are cash payments and some of which are benefits-in-kind. Examples include paid holidays; occupational sick pay (in excess of statutory requirements); paid maternity leave (in excess of statutory requirements); occupational pension schemes; life and accident assurance; private medical care; subsidised meals or staff canteens; subsidised travel; company cars; staff discounts; luncheon vouchers and childcare facilities. Free or subsidised accommodation or board and lodging may also be provided.

Source: Based on Appendix F (I): Make-up of Pay and Benefits Packages: Illustrative Components
Note by the Department of Trade and Industry (HM Government, 1998).

Appendix 8

Approved Vocational Training Courses and Qualifications

This appendix contains details of courses and qualifications approved for England by the Secretary of State for Education and Employment and for Wales by the Secretary of State for Wales. For Scotland, there are details of the framework of qualifications approved for use by young people taking the employer option of the New Deal. There is no separate list for Northern Ireland, where their practice is to make reference to those courses and qualifications approved for England and Wales.

Individual Courses and Qualifications Approved by the Secretary of State for Education and Employment

(August 1998–July 1999)

This is an extract from the list of classes of qualification and individual titles that have been approved under Section 3(1) and Schedule 2(a) to the Further and Higher Education Act 1992.

These are in addition to NVQs and GNVQs. Other courses and qualifications may be approved by the Secretary of State on the advice of the Qualifications and Curriculum Authority.

ASSOCIATION OF INDUSTRIAL TRUCK TRAINERS

Fork Lift Truck Operator
Plant Operator (Construction)

BRITISH HORSE SOCIETY

Stage 1 Horse Knowledge and Care
Stage 1 Horse Knowledge and Riding
Stage 2 Horse Knowledge and Care
Stage 2 Horse Knowledge and Riding – Assistant
Grooms Certificate
Stage 3 Horse Knowledge and Care – Grooms Certificate
Stage 3 Horse Knowledge and Riding Preliminary
Teaching Certificate

BRITISH INSTITUTE OF INNKEEPING

Certificate of Qualifying Examination
National Licensee's Certificate

BRITISH PRINTING INDUSTRIES FEDERATION

Estimating
Introduction to Printing Technology

CHARTERED INSTITUTE OF BANKERS

Banking Certificate
Certificate for Financial Advisers
Certificate in Financial Services Practice
Professional Investment Certificate

CHARTERED INSTITUTE OF HOUSING

Advanced Certificate for Wardens
National Benefits Certificate
National Certificate in Caretaking and Concierge
Services
National Certificate for Central Control Operators
National Certificate in Supported Housing
National Certificate in Tenant Participation

National Certificate in Travellers Site Management

CHARTERED INSTITUTE OF MARKETING

Certificate in Marketing
Certificate in Selling

CHARTERED INSURANCE INSTITUTE

Financial Planning Certificate
Insurance Foundation Certificate

CITY AND GUILDS

Certificate in Gardening

Tree Surgery

Tree Surgery for Craftsmen
Tree Surgery for Foremen
Tree Surgery

Floristry

The National Certificate in Floristry
Certificate in Professional Floristry
Horticulture

Amenity Horticulture Phase II

Commercial Horticulture Phase II

General Commercial Horticulture Phase II
Agriculture and Horticulture

Phase III

Phase IV

National and Advanced National Certificates in Agriculture

National Certificate for Farm Secretaries

National Certificate in Agriculture

National Certificate in Agriculture with Home
Economics

National Certificate in Agriculture with Related Studies

National Certificate in Animal Care

National Certificate in Countryside Related Studies

National Certificate in Dairy Farming

National Certificate in Dairying

National Certificate in Farm Management

National Certificate in the Management of Horses

National Certificate in Poultry

Advanced National Certificate in Agriculture

Advanced National Certificate in Animal Care

Advanced National Certificate in Countryside
Related Studies

Advanced National Certificate in Equine Business
Management

Advanced National Certificate in Poultry

National and Advanced National Certificates in Horticulture

National Certificate in Horticulture

Advanced National Certificate in Horticulture

Mine Environment

Process Plant Operations (New Scheme)

Part I

ABPI Pharmaceuticals, Part I

Part II

Part III

Part III Supplementaries

Basic Polymer Technology

Part I

Part II

Iron and Steel Production Technology

Advanced Certificates

Post Advanced Certificate

Plastics Processing Standards of Performance

Industrial Operatives

Basic Machining Skills

Foundry Craft Competences

Part I

Part II

Patternmaking and Modelmaking Competences

Part I

Part II

Entertainment and Theatre Electricians

Sound Engineering Competences

Part I

Part II

Knowledge of Security and Emergency Alarm Systems

Intruder Alarms

Access Control

CCTV

Fire Detection and Alarm Systems

Basic Engineering Competences

Mechanical Engineering and Mechanical Engineering Maintenance

Craft Studies

Part III

Advanced Mechanical Engineering Studies

– Career Extension

Handling of Refrigerants

Aeronautical Engineering Craft Studies

Part III

Advanced Studies

Patternmaking Craft Studies

Part III

Engineering Systems Maintenance Competences

Part II

Part III

Fabrication and Welding Inspection and Quality Control

Career Extension Level

Engineering Craft Supplementary Studies

Machining, Assembly and Processing Skills

Telecommunication and Electronics

Mechanics

Part I

Part II

Part III

Microcomputer Technology

Part I

Part II

Part III

Electronics Servicing

Part I, Joint Certificate with EEB

Part II

Part III

Maintenance Craft Studies in Measurement and Control

Part II

Part III

Mechanical Production Competences

Part II

Part III

Part III (Pilot Scheme)

Fabrication and Welding Competences

Part II

Part III

Computer-aided Engineering Competences

Part I

Part II Machine Setting

Part II Part Programming

Part II CAD

Part II Robotics

Part II PLC

Part III Advanced Part Programming

Part III Advanced CAD and Design

Electrical and Electronic Engineering

Part II Craft Studies

Part III Craft Studies

Electrical and Electronic Engineering Competences

Fluid Power Engineering Competences

Part I

Part II

Part III

Electrical Installation

Part 1 Competences

Part 2 Competences

Part 1 (Theory)

Part 1 (Theory and Practice)	Television and Video Production
Part 2 (Theory)	Wigmaking
Part 2 (Theory and Practice)	Cosmetic Make-up
Code of Practice for In-Service Inspection and Testing of Electrical Equipment	Manicure
Certificate of Competent Management of Electrical Equipment	Beauty Therapy
Certificate of Competence for the Inspection and Testing of Electrical Equipment	Technical Drawing Skills
16th Edition of IEE Wiring Regulations	Electrical Epilation
Inspection Testing and Certification of Electrical Installation	Playworker Certificate
Design, Erection and Verification of Electrical Installations	Community Care Practice
Shipbuilding Craft Studies	Foundation Management for Care
Part III	Advanced Management for Care
Advanced	Introductory Welding Skills
Shipbuilding Competences	Arc Welding
Level II	Gas-Shielded
Marine Craft Fitting Competence	Oxy-Acetylene
Level I	Tungsten-Arc G.S. (Aluminium)
Level II	Tungsten-Arc G.S. (Stainless Steel)
Yacht and Boat Building and Ship Joinery Craft Studies	Basic Welding Skills
Part I	Professional Cookery
Part II, Ship Joinery Craft Studies	Cookery Certificate
Part II, Yacht and Boat Building Craft Studies	Cook's Professional Certificate
Part III	Certificate in Professional Cookery
Supplementary Studies	Diploma in Professional Cookery
Engineering Construction	Preliminary Cooking
Marine Plumbing and Coppersmiths Work	Programmable Logic Control
Part II	Fibre Optics
Part III	Practical Caring Skills
Career Extension Subjects	Part I
Marine Engineering	Part II
Part II	Diploma of Vocational Education
Refrigeration Technicians	Intermediate/National Level
Part I	Key Skills
Part II	Problem Solving Levels 1–5
Aeronautical Engineering Competences	The Technological Baccalaureate
Part II	Profile of Achievement
Telecommunications and Electronic Engineering	Motor Vehicle Craft Studies
Part I	Part II Vehicle Electricians
Part II	Part II Fuel Injection Equipment
Part III	Mechanics
Industrial Measurement and Control Technicians	Part III Modular
Part I	Part III
Part II	Diploma in Vehicle Restoration
Part III	Repair and Servicing of Road Vehicles
	Level I
	Level II
	Level III

Vehicle Parts Personnel

Vehicle Parts Certificate
Supplementary Studies

Vehicle Body Craft Studies

Part III

Supervisory Studies for Vehicle and Plant Personnel

Repair and Servicing of Motor Cycles (New Scheme)

Part I

Tyre Fitting – Advanced

Motor Vehicle Inspection for Police Officers

Maintenance and Repair of Construction Plant

Construction Plant Basic
Maintenance Mechanic
Contractors Plant

Agricultural Mechanics

Part II
Part III, Modular
Part III

Vehicle Body Competencies

Level 1
Level 2
Level 3

Exhaust Fitting

Motor Cycle Repair and Maintenance

Motor Vehicle Repair and Maintenance Skills

Cycle Maintenance and Repair Motor Cycle Skills

Computer Programming and Information Processing

Data Processing for Computer Users

Preliminary Applications Programming Certificate

Basic Competence in Information Technology

Applications Programming Certificate

Teleworking

Computer-aided Draughting and Design Using Autocad

Computer-aided Draughting
Three-Dimensional Design
Autocad Customisation
Auto Lisp
Using Autocad AEC in Built Environment

Footwear Manufacture Operatives

Stage I
Stage II
Stage III

Clothing and Knitting Craft

Clothing Craft
Organisational and Supervisory Skills
Supervisory Studies

Knitting Machine Mechanics

Craft
Advanced Craft
Senior Craftsman

Clothing Machine Mechanics

Craft
Advanced Craft
Senior Craftsman
Hemstitching Mechanics

Leather Goods Manufacture

Stage I
Stage II
Auto Trim Shop

Saddlery

Certificate
Advanced

Recreation and Leisure Industries

Part I
Part II
Part III

Business Travel

Introductory Certificate
Consultant Certificate
Supervisory Certificate
Management Certificate

Sewing Machinist Instructors

Paper and Board Making

Part I
Part II

Printing and Graphic Communications

Level I
Level II
Level III

Communication of Technical Information

Technical Communication
Technical Authorship

Furniture Craft Subjects and Advanced Studies

Part I
Part II
Advanced

Stringed Keyboard Instrument Manufacture

Part I
Part II
Advanced
Higher Award

Musical Instrument Making and Repair**Furniture Crafts**

Cabinet

Upholstery

Basic

Fine

Fine Advanced

Soft

Restoration

Crafts

Kitchen

Fine Woodwork**Stonemasonry****Furniture Subjects Advanced, Design and Construction****Concrete Practice****Machine Woodworking**

Craft

Advanced

Signwork

Craft

Advanced

Construction Services Welding**Construction Crafts Supplementary Studies**

Principles of Construction

Craft Supervision

Properties and Functions of Materials

Physical Science

Colour in Building Work

Surveying and Levelling

Building Measurements and Costs

Design in Building Work

Basic Construction Skills**Painting and Decorating Skills****Leadworkers Certificate****Basic Bricklaying Skills****Basic Painting and Decorating Skills****Basic Plastering Skills****Basic Carpentry and Joinery Skills****Construction Materials Distribution Certificate****Basic Woodworking Skills****Roadwork**

Craft

Advanced Craft

Multi-Craft Skills in Construction**Master Crafts Diploma in Building Conservation, Restoration and New Work****Street Works Excavations and Reinstatement****Winter Maintenance Operators****Maintenance and Repair of Construction Plant (Old Scheme)**

Advanced

Roadwork**Quantity Surveying**

Part I

Part II

Concrete Technology and Construction

Part I

Part II

Boiler Operators**Steam Turbine Plant Operators****Bakery****Food and Beverage Service****Handcrafted Furniture****Information Technology****Business and Office Technology**

(Certificate, Diploma, Advanced Diploma)

Computer Applications

(Certificate, Diploma, Advanced Diploma)

Computer Programming

(Certificate)

Data Processing and Information Systems

(Certificate, Diploma, Advanced Diploma)

Electronics and Computer Systems

(Certificate, Diploma, Advanced Diploma)

Electronics Servicing

(Certificate)

Electronic Office Systems Maintenance

(Level 1, Level 2 Workshop, Level 3 Field)

Electronic Systems

(Certificate, Diploma, Advanced Diploma)

Information Processing

(Certificate)

Information Technology

(Certificate, Diploma, Advanced Diploma)

Programming

(Certificate, Diploma, Advanced Diploma)

Knowledge of Security Guard Practices*(joint with Security Industries Training Organisation)***Aviation Studies**

Further and Adult Education Teachers Certificate

Certificate in Learning Support

Foundation Certificate in Teaching Training and Development

Basic Skills Support

Basic Skills Support in Further Education

Basic Skills Support in the Workplace

Management of Work Experience Placements

Co-ordinating Work Experience Placements

Monitoring Work Experience Placements

Managing Health and Safety in Work Experience Placements

Management of Work Experience Placements

Audio-Visual Techniques

Part I

Part II

Library and Information Assistants

Continuing Professional Development

Professional Development (Special Needs)

Professional Development

Radiation Safety Practice

Stage I

Stage II

Quality Assurance

Professional Photography Competencies

Part I

Part II

Certificate in Small Animal Nutrition

Core Vocational Qualification for Education Laboratory Technicians

Kennel Craft

Animal Care

Canine Studies

Animal Management

Cleaning Science

Certificate

Supervision

Radio Amateurs Examination

Silverware

Craft

Advanced Craft

Jewellery

Craft

Advanced Craft

Building Services

Supervisors/Caretakers

Certificate in Media Techniques: Television and Video Competencies

Novice Radio Amateurs Examination

Dog Grooming

Pet Store Management

Certificate in Media Techniques: Journalism and Radio Competencies

Basic Sewing Skills

Introduction to Home Interior Design

Advanced Interior Design

Creative Studies

Part I

Part II

Part III

Youth Worker Awards

Youth Worker

Senior Youth Worker

Teaching Basic Communication Skills

Initial Certificate in Teaching Basic Skills (Literacy, Numeracy and ESOL)

Certificate in Teaching Basic Skills (Literacy, Numeracy and ESOL)

Engineering Office Drawing

Machine Setting and Operating Skills

Electronic Wiring Skills

Horticulture Skills Test

Introductory Computer Programming

CONSTRUCTION INDUSTRY TRAINING BOARD

Site Management Safety Training Certificate

BES Certificate:

Electrics; Gas; Gas Miscellaneous; Refrigerant; Water

COUNCIL FOR AWARDS IN CHILDREN'S CARE AND EDUCATION (CACHE)

Advanced Diploma in Child Care and Education

Certificate in Child Care and Education

CACHE Diploma in Nursery Nursing (NNEB)

Developing Childminding Practice (Family Day Care)

Stage 1 (NCMA)

Specialist Teacher Assistant Award

COUNCIL FOR THE ADVANCEMENT OF COMMUNICATION WITH DEAF PEOPLE

Stage 1 Basic Certificate in British Sign Language

Stage 2 Intermediate Certificate in British Sign Language

Stage 3 Advanced Certificate in British Sign Language		National Certificate
Certificate in Communication and Guiding Skills with Deafblind People		National Diploma
Interpreting for Deafblind People (Manual Alphabet)		Professional Development Award L3
Level 1 Intermediate Certificate in Lipspeaking		
Level 2 Advanced Certificate in Lipspeaking		
Level 2 Vocational Skills Certificate in Note-taking for Deaf People		
EDEXCEL (BTEC)		
Agriculture	First Certificate	
	First Diploma	
	National Certificate	
	National Diploma	
Agriculture (Farm Mechanisation)	National Diploma	
Agriculture (Game, Wildlife and Habitat Management)	First Diploma	
	National Diploma	
Agriculture (Land Use and Recreation)	National Diploma	
Agriculture (Management of Thoroughbred Horses)	National Diploma	
Agriculture (Mechanisation)	First Diploma	
Agriculture (Poultry)	First Certificate	
Agriculture (Production and Management)	National Diploma	
Agriculture (Rural Mechanisation)	National Diploma	
Amenity Horticulture	National Diploma	
Arboriculture	National Diploma	
Arboriculture (Mechanisation)	National Diploma	
Beauty Therapy	National Diploma	
Builders' Merchants Studies (Timber)	National Certificate	
Building Services Engineering	National Certificate	
Building Services Engineering (Controls)	National Certificate	
Building Services Engineering (Electrical Installations)	National Certificate	
Building Services Engineering (Gas Utilisation)	National Certificate	
Building Services Engineering (Refrigeration)	National Certificate	
Building Studies	National Certificate	
Built Environment (Interior Design)	National Diploma	
Business Administration	Professional Development Award L3	
Business and Finance		National Certificate
		National Diploma
		Professional Development Award L3
Business Travel Operations		Intermediate Award
		Advanced Award
Caring		First Certificate
		First Diploma
		Professional Development Award L3
Caring (Care Management)		Professional Development Award L3
Caring (Care Practice)		Professional Development Award L3
Caring (Creative Therapy)		Professional Development Award L3
Caring Services (Social Care)		National Certificate
		National Diploma
Childhood Studies (Nursery Nursing)		National Certificate
		National Diploma
Civil Engineering Studies		National Certificate
Clothing		National Diploma
Coalmining Electrical Engineering		National Certificate
Coalmining Mechanical Engineering		National Certificate
Commercial Horticulture		First Diploma
Computer Studies		National Certificate
		Professional Development Award L3
Construction		National Diploma
Costume Design		National Diploma
Countryside Studies		National Diploma
Dance Movement Therapy Studies		National Certificate
Dance Studies		Professional Development Award L3
Design		First Certificate
		First Diploma
		National Certificate
		National Diploma
		Professional Development Award L3
Design (Advertising)		National Diploma
Design (Audio-Visual)		National Diploma
Design (Ceramics)		National Diploma

Design (Communications)	National Diploma	Design (Reprography)	National Diploma
Design (Costume and Styling for the Performing Arts)	National Diploma	Design (Retail and Exhibition Design)	National Diploma
Design (Crafts)	National Diploma Professional Development Award L3	Design (Silversmithing and Jewellery Design)	National Certificate
Design (Creative Software)	National Diploma	Design (Spatial Design)	National Certificate National Diploma
Design (Display)	National Certificate National Diploma	Design (Studio Ceramics)	National Diploma
Design (Fashion)	National Certificate National Diploma	Design (Styling for Media/Fashion/Theatre)	National Diploma
Design (Fashion and Accessories)	National Diploma	Design (Surface Pattern)	National Diploma
Design (Fashion and Clothing)	National Diploma	Design (Technical Illustration)	National Diploma
Design (Fashion/Surface Pattern)	National Diploma	Design (Textiles)	National Diploma
Design (Fashion/Textiles)	National Diploma	Design (Textiles and Surface Pattern)	National Diploma
Design (Film and Television)	National Diploma	Design (Theatre Studies)	National Diploma
Design (Footwear)	National Diploma	Design (Three Dimensional Studies)	National Diploma
Design (Furniture)	National Diploma	Design (Typography)	National Diploma
Design (Furniture Making and Restoration)	National Diploma	Design (Visual Communication)	National Diploma
Design (Graphic Design)	National Certificate National Diploma	Design (Visual Communications)	National Diploma
Design (Illustration)	National Certificate National Diploma	Design for Interior	Professional Development Award L3
Design (Industrial Design)	National Diploma	Ecology and Landscape Studies	National Diploma
Design (Interior Design)	National Certificate National Diploma	Engineering	First Certificate First Diploma National Certificate National Diploma
Design (Jewellery)	National Diploma	Engineering (Aerospace Studies)	National Certificate National Diploma
Design (Lens Imaging)	National Diploma	Engineering (Broadcast Audio Engineering)	National Certificate
Design (Media Make-up)	National Diploma	Engineering (Communications)	National Certificate
Design (Modelmaking)	National Diploma	Engineering (Electrical/Electronic)	National Certificate National Diploma
Design (Multi-Media)	National Diploma	Engineering (Electronics)	National Certificate
Design (Packaging)	National Diploma	Engineering (Historic Vehicle Restoration)	National Diploma
Design (Photography)	National Certificate National Diploma	Engineering (Industrial Measurement and Control)	National Certificate
Design (Photography and Video)	National Diploma	Engineering (Mechanical/Manufacture)	National Certificate National Diploma
Design (Photography and Digital Imaging)	Professional Development Award L3	Engineering (Motor Vehicle Studies)	First Certificate First Diploma National Certificate National Diploma
Design (Photography and Radio, TV and Video)	National Diploma		
Design (Precious Metals and Gem Stones)	National Diploma		
Design (Product Design)	National Diploma		

Engineering (Plant and Process Plant)	National Certificate	Horse Studies (Pre-Farriery Training)	First Diploma
Engineering (Process/Plant/Instrumentation)	National Certificate	Horticulture	First Diploma National Certificate National Diploma
Engineering (Signalling and Communication)	National Certificate	Horticulture (Amenity and Decorative)	National Diploma
Environmental Conservation	National Diploma	Horticulture (Amenity Option)	National Diploma
Environmental Health Studies	National Certificate National Diploma	Horticulture (Garden Design)	National Diploma
European Hotel and Tourism Administration	National Diploma	Horticulture (Golf Course Management)	National Diploma
European Media and Communication Studies	National Certificate National Diploma	Horticulture (Greenkeeping and Sports Turf Management)	National Diploma
Fashion Design	National Diploma	Horticulture (Hardy Nursery Stock Production)	National Diploma
Fishery Studies	First Diploma National Diploma	Horticulture (Landscape and Amenity Management)	National Diploma
Floristry	First Diploma National Certificate National Diploma	Horticulture (Professional Gardening)	National Diploma
Forensic Science and Criminal Psychology	National Diploma	Horticulture (Turf Science and Sports Ground Management)	National Diploma
Forestry	First Diploma National Diploma	Hotel Administration	National Diploma
Forestry Mechanisation	First Diploma	Hotel Catering and Institutional Operations	National Certificate National Diploma
Forestry (Woodland Management)	National Diploma	Hotel Catering and Institutional Operations (Front Office Operations)	National Certificate National Diploma
Foundation Studies in Art and Design	BTEC Diploma	Hotel and Catering Studies (Hotel Reception)	First Diploma
Furniture	National Certificate National Diploma	Housing Studies	National Certificate First Diploma
Game and Fishery Management	National Diploma	Information Technology	National Certificate
Game and Wildlife Management	National Diploma	Information Technology Applications	First Certificate First Diploma National Certificate National Diploma
Game and Wildlife Studies	First Diploma	Information Technology and Business Studies	Professional Development Award L3
Gamekeeping	First Diploma	Instrumentation and Control	National Diploma
General Art and Design	National Diploma	Key Skills (Problem Solving)	Levels 1–5
Geographical Information Systems	National Certificate National Diploma	Land Administration	National Certificate National Diploma
Golf Studies	National Diploma	Land Administration (Estate Management)	National Certificate
Greenkeeping	First Diploma	Land Administration (Planning)	National Certificate
Horse Breeding and Stud Management	National Diploma		
Horse Management	First Diploma		
Horse Studies	First Diploma National Certificate National Diploma		
Horse Studies (Blacksmithing and Equine Studies)	First Diploma		
Horse Studies (Farriery)	National Diploma		

Land and Countryside (Blacksmithing and Metalworking)	National Certificate	Performing Arts (Music Production and Performance)	National Diploma
Land and Countryside Studies	National Certificate National Diploma	Performing Arts (Popular Music)	National Diploma
Land-Based Mechanisation	National Diploma	Performing Arts (Rock and Pop)	First Diploma
Landscape Construction	National Diploma	Photographic Technology	National Certificate
Landscape Practice	National Diploma	Polymer Technology	National Certificate
Landscape Studies	First Diploma National Diploma	Popular Music	National Certificate National Diploma
Leisure Studies	National Diploma	Pottery Administration	National Certificate
Leisure Studies (Outdoor Education)	National Diploma	Practical Conservation	First Diploma
Leisure Studies (Outdoor Recreation)	National Diploma	Print Production Design (Print and Packaging Buying)	Professional Development Award L3
Management Studies	Professional Development Award L3	Printing	First Certificate First Diploma National Certificate National Diploma
Materials Technology	National Certificate	Product Design	National Diploma
Media	National Certificate National Diploma	Property and Estate Studies	National Diploma
Media (Animation)	National Diploma	Public Services	First Certificate First Diploma National Certificate National Diploma
Media (Music and Media)	National Diploma	Publishing	Professional Development Award L3
Media Technology	National Diploma	Retail Design	National Diploma
Metals Technology	National Certificate	Retail Travel Operations	Intermediate Award Advanced Award
Mining Engineering	National Certificate	Rural Studies	First Certificate First Diploma National Diploma
Mining Engineering (Mining and Electrical)	National Certificate	Rural Studies (Countryside Management)	National Diploma
Mining Engineering (Mining and Mechanical)	National Certificate	Rural Studies (Countryside Recreation)	National Diploma
Motor Vehicle Studies (Parts)	National Certificate	Rural Studies (Environmental Management)	National Diploma
Music Techniques and Performance	National Diploma	Science	First Certificate First Diploma National Certificate National Diploma Professional Development Award L3
Music Technology	National Certificate National Diploma	Science (Animal Technology)	National Certificate
Musical Instrument Technology	National Diploma	Science (Baking Technology)	First Diploma National Diploma
Nautical Science	National Diploma	Science (Dental Assisting)	National Certificate
Operational Telecommunications	National Diploma	Science (Dental Technology)	National Diploma
Overseas Resort Operations (Children's Couriers)	Advanced Award		
Overseas Resort Operations (Resort Representatives)	Advanced Award		
Performing Arts	First Certificate First Diploma National Certificate National Diploma		
Performing Arts (Applied Theatre Technology)	National Diploma		

Science (Food Science)	National Certificate National Diploma
Science (Health Studies)	National Certificate National Diploma
Science (Leather Technology)	National Certificate
Science (Medical Physics and Physiological Measurement)	National Certificate
Science (Pharmaceutical)	National Certificate
Science (Polymer Technology)	National Certificate National Diploma
Science (Sports Studies)	First Diploma National Certificate National Diploma
Science (Technology of Food)	National Certificate National Diploma
Science (Textile Coloration)	National Certificate
Supervisory Management	Professional Development Award L3
Surveying	National Certificate
Surveying (Cartography)	National Diploma
Technology	First Diploma
Textiles	National Certificate
Three Dimensional Design	National Diploma
Three Dimensional Design and Craft	National Diploma
Tour Operations	Intermediate Award Advanced Award
Tourist Guiding Operations	Intermediate Award
Travel and Tourism	National Certificate National Diploma
Uniformed Services	National Diploma
Upland Resource Management	National Diploma
Water Based Studies	National Diploma
Water Engineering (Water and Waste Water Operations)	National Certificate
Yacht and Small Boat Technology	National Diploma
EMTA AWARDS LTD	
Certificate of Basic Training of Engineering Craftsman	
Certificate of Basic Training of Technicians in Engineering	
Certificate of Engineering Craft Training	
Certificate of Engineering Technician Training	

HOTEL AND CATERING INTERNATIONAL MANAGEMENT ASSOCIATION

Professional Certificate in Hotel and Catering International Management

IMPERIAL SOCIETY OF TEACHERS OF DANCING

Advanced Certificate

Associate

Associate Diploma

INSTITUTE OF MANAGEMENT FOUNDATION

Certificate in Management – Business Start-up

Certificate in Supervisory Management

INSTITUTE OF THE MOTOR INDUSTRY

Heavy Vehicle Mechanical and Electronic Systems Maintenance and Repair

Light Vehicle Mechanical and Electronic Systems Maintenance and Repair

Supervisory Studies

Vehicle Body Fitting

Vehicle Body Repair

Vehicle Mechanical and Electronic Systems Unit Replacement

Vehicle Refinishing

INSTITUTE OF OPERATIONS MANAGEMENT

Introductory Certificate in Production and Inventory Management

INSTITUTE OF PERSONNEL AND DEVELOPMENT

Certificate in Personnel Practice

Certificate in Training Practice

INSTITUTE FOR SUPERVISION AND MANAGEMENT

Certificate in Supervisory Management Studies

JOINT EXAMINING BOARD

Certificate of Competence in the Educational Use of Information Technology

Principles of Teaching and Training Certificate

Teacher Trainer Certificate in Administration

Teacher Trainer Certificate in Educational Management

Teacher Trainer Certificate in Information Technology Skills

Teacher Trainer Certificate in Information Technology Advanced

Teacher Trainer Certificate in Typing

Teacher Trainer Certificate in Word-processing

LONDON CHAMBER OF COMMERCE AND INDUSTRY (LCCI)

	Levels:
Accounting	Third
Advanced Business Calculations	Third
Advertising	Third
Audio-Transcription	First, Second, Third, Fourth
Background to Business	Second
Book-keeping	First
Book-keeping and Accounts	Second
Business Administration	First, Second, Third, Fourth
Business Calculations	Second
Business Practice	Second, Third, Fourth
Business Statistics	Third
Commercial Calculations	First
Commercial Language Assistant's Certificate	Second
Cost Accounting	Third
Diploma in European Business Administration	Fourth
English for Business	First, Second, Third
English/French Commercial Correspondence	Second, Third
English/German Commercial Correspondence	Second, Third
English/Spanish Commercial Correspondence	Second, Third
European Executive Assistant's Certificate	Third
European Union Foreign Languages at Work	Third
Foreign Languages for Industry and Commerce	Threshold, Intermediate, Advanced
French/English Commercial Correspondence	Second, Third
German/English Commercial Correspondence	Second, Third
Information Processing	Third
Law and its Terminology	Second, Third
Management Accounting	Third
Management Appreciation	Third
Manuscript Transcription	Second, Third
Marketing	Third

Meetings	Fourth
Office Organisation and Secretarial Procedures	Third
Office Procedures	Second
Practical Book-keeping	First
Practical Computing	First
Practical Word Processing	First, Second
Principles of Management	Third
Private and Executive Secretary's Diploma	Fourth
Private Secretary's Certificate (PSC)	Third
Public Relations	Third
Secretarial Administration	Fourth
Secretarial Studies Certificate (SSC)	Second
Selling and Sales Management	Third
Shorthand	First, Second, Third
Spanish/English Commercial Correspondence	Second, Third
Text Processing	Third
Text Production	First, Second, Third
Word Processing	Second
Written English for Tourism	First, Second

NATIONAL PROFICIENCY TESTS COUNCIL

Certificate:
All Terrain Vehicles (ATV)
Arboricultural Operations
Arboricultural Works within Proximity Zones of Overhead Lines
Beef Production
Brushwood Cutters/Clearing Saw
Bulb and Corm Production
Craftsman
Chain Saw and Related Operations
Dairy (Milk) Production
Farm Maintenance
Forestry Operations – Harvesting Work
Forestry Operations – Mechanised Work
Forestry Operations – Nursery Work
Fruit Crops Production – Soft Fruit
Fruit Crops Production – Tree Fruit

Garden Centre Skills		Cost and Management Accounting	3
Glasshouse Crops Production		Desktop Publishing	1, 2
Hop Production		Disk Management	
Horsekeeping		English for Business Communications	1, 2, 3
Landscape Practice		English for Office Skills	1, 2
Maintenance of Horticultural Equipment and Stores		Keyboarding	
Nursery Stock Production		Office Procedures	1, 2
Outdoor Vegetable Production		Practical Data Processing	Elementary
Pesticides Management		Practical Data Processing	Intermediate
Pig Production		Practical Spreadsheet Processing	Elementary, Intermediate
Plant Variety Development		Practical Word Processing	
Poultry Production		Shorthand Speed	50, 120 and 130+ wpm
Machinery Operation		Text Production Skills	
Milking Machine Technician		Text Production Skills	French, German, Spanish
Safe Use of Sheep Dips		Typewriting	Elementary, Intermediate, Advanced
Safe Use of Veterinary Medicines		Typewriting	5 minute profile speed test
Sheep Production		Word Processing	Elementary, Intermediate, Advanced, Masterclass
Tractor Driving		Word Processing Techniques	Elementary, Intermediate, Advanced, Professional
Use of Mowers			
Use of Mowers (Self-propelled)			
Use of Pesticides			
Vertebrate Pest Control Management			
Watercress Production			
NEBS MANAGEMENT			
Management Certificate			
Management Certificate for Owner Managers			
Management Diploma			
PITMAN QUALIFICATIONS			
	Levels:		
Accounting	3, 4	RSA EXAMINATIONS BOARD	Levels:
Administration and Secretarial Procedures	3	Accounting	Stages II, III
Audio-Transcription	Intermediate 80wpm, 100 wpm	Administration Practice	Stage III
Audio-Transcription	Advanced 120 wpm	Administrative and Secretarial Procedures	Certificate, Diploma
Business Studies	1, 2	Audio-Transcription	Stages I, II, III
Book-keeping and Accounts	1, 2	Book-keeping	Stage I
Commercial Numeracy	1, 2	Business Administration	Stages II, III
Communication in Technical English		Business Language Competence (CBLC) – Survival; Threshold; Operational; Advanced	Certificate
Computerised Accounts	1, 2	Communication in Business	Stage I, II

Computer Literacy and Information Technology (CLAIT)	Stage I	Word Processing (Audio)	Stage I
Conference and Meetings Organisation	Stage II	Teacher Training:	
Counselling Skills and Learning Support	Certificate	Administration Skills	Certificate, Diploma
Counselling Skills in the Development of Learning	Certificate	Educational and Vocational Guidance for Adults	Certificate, Diploma
Databases	Stage II	Information Technology	Certificate, Diploma
Desktop Publishing	Stage II, III	Literacy and Numeracy Support Assistant	Certificate
Document Presentation	Stage III	Teaching of Exercise to Music	Basic Certificate
European Background	Stage II	Teaching Foreign Languages to Adults	Certificate
French Text Processing	Stages I, II	Customer-Specific Schemes:	
German Text Processing	Stages I, II	Bilingual Skills at Work Profile	
Information Technology	Certificate, Diploma, Advanced Diploma	Contemporary Musicianship	Certificate
Integrated Business Technology	Stages II, III	Counselling Skills for Working Professionals	Certificate
Legal Text Processing	Stage II	Firmstart	Certificate
Mailmerge	Stage II	Hearing Therapy	Diploma
Manufacturing Practice	Certificate, Diploma	Photography and Audio Visual Studies	Advanced Diploma
Medical Audio Transcription	Stage II	Switchboard Operating Skills	Levels 1 & 2
Medical Word Processing	Stage II	Teacher of Lip-Reading to Adults	Certificate
Organisation of Community Groups	Advanced Diploma	Teaching English as a Second Language to Adults	Certificate
Part-time Youth Workers	Certificate	Teaching English as a Second Language to Adults in Further, Adult and Community Education	Diploma
Practical Book-keeping	Stages I, II	Team Leader Award	
Practical Finance	Stage II	Other:	
Principles of Finance	Stage II	CLAIT File Management – DOS	
Principles of Law	Stage II	CLAIT File Management – Windows	
Professional Competence in Passenger Transport	Certificate	Computer Keyboard Skills	
Professional Competence in Road Haulage	Certificate	Copy Typing Speed Skills	
Reception	Certificate, Diploma	Medical Shorthand Speed Skills	
Shorthand Transcription	Stages I, II, III	Problem Solving Levels 1-5	
Spanish Text Processing	Stages I, II	Shorthand Speed Skills	
Spreadsheets	Stage II	TRADES UNION CONGRESS (TUC)	
Text Processing	Stages I, II, III	TUC Certificate Programme	
Travel Organisation	Stage II		
Typewriting	Stages I, II, III		
Variety Entertainment	Diploma		
Word Processing	Stages I, II, III		

Additional Courses and Qualifications Approved by The Secretary of State for Wales under Section 3(1) and Schedule 2(a) to the Further and Higher Education Act 1992

(Academic year 1997–98)

BASKETBALL ASSOCIATION OF WALES

Advanced Coach Award

Basketball Leaders Award

Coach Award

Grade II Referee Award

Grade III Referee Award

Junior Referee Award

NATO I Award (Table Officiating)

NATO II Award (Table Officiating)

Preliminary Coach Award

BRITISH HORSE SOCIETY

Stage I

Stage II

Stage III

CLYBIAN PLANT CYMRU

Playwork Foundation Course

FITNESS WALES

Advanced Step Course

Aqua Teachers Course

Exercise to Music – Teachers Course

Kids Fit Course

Teaching the Older Adult

Weights, Circuits and Gym Instructors Course

FOOTBALL ASSOCIATION OF WALES

Football Leaders Award

Intermediate/Senior Licence

Preliminary Licence

Soccer Leaders Award

HEARTSTART WALES

Heartstart 2000

MUDIAD YSGOLION MEITHRIN

Mudiad Ysgolion Meithrin Cwrs Cyfansawdd

NORTH WALES ACCESS AND CREDIT CONSORTIUM (NWACC)

Advance Word Processing

Building Craft Foundation Programme

CD ROM

Convert to Word 6

Creative Performing

Fashion Design and Pattern Cutting

Intermediate Floristry

Internet Skills

Land Based Provision

Machine Knitting

Mathematics

Medical Receptionist Development Programme

Motor Vehicle Engineering Workshop – Practice and Construction

Volunteers in Alcohol and Drug Support Training

Web Page Design

PRE SCHOOL PLAYGROUP ASSOCIATION

Wales PPA Introductory Course

SOUTH EAST WALES ACCESS CONSORTIUM (SEWAC)

Advanced Play Training Certificate – NVQ3 equivalent

Aerospace Studies

Analysis of Hearing Loss and Hearing Aids for Lip Readers NVQ3

Aromatherapy NVQ2

Aromatherapy: Complementary NVQ2

Art NVQ3

Bobbin Lace Making NVQ2

Cake Icing and Sugarcraft: Painting NVQ 2 & 3

Cake Decorating and Sugarcraft: Painting NVQ3

Cake Decorating and Sugarcraft: Painting NVQ2

Cake Decorating and Sugarcraft: Sugarpaste NVQ2

Cake Decorating and Sugarcraft: Sugarpaste NVQ3

Ceramics NVQ2

Creative Soft Furnishing NVQ2

Counselling Skills and Theory

Decoupage NVQ2

Design: Intermediate NVQ2

Drawing Skills and Techniques NVQ3

Dressmaking: NVQ2

Dressmaking: Garment Construction – Advanced Techniques NVQ3
Dressmaking: Pattern Alteration NVQ2
Electronics Skills Training
Embroidery NVQ2
Fashion – Presentation and Technique NVQ2
Flower Arranging: Design – Intermediate NVQ2
Flower Painting in Water-colour NVQ3
Love Spoon Carving NVQ2 and 3
Modern Languages – Stage 3 NVQ2
Machine Knitting – Charting – Advanced NVQ3
Needlecraft NVQ2
Painting in Oils NVQ2
Patchwork and Quilting: Fabric Painting and Dyeing NVQ2
Patchwork and Quilting: Hand Sew Appliqué NVQ2
Patchwork and Quilting: Machine Appliqué NVQ2
Patchwork and Quilting: Decorative Appliqué NVQ2
Patchwork and Quilting: Reverse Appliqué Quilting and Patchwork NVQ2
Pottery: Glazing Techniques NVQ2
Pottery: Handbuilt Forms – Intermediate NVQ2
Pottery: Throwing and Turning – Intermediate NVQ2
Pottery: Handbuilt Forms – Advanced NVQ3
Pottery: Throwing and Turning – Advanced NVQ3
Pottery: Design – Advanced NVQ3
Pottery: Decorative Techniques – Advanced NVQ3
Pottery: Mould Making – Advanced NVQ3
Printmaking NVQ2
Sculpture of the Human Form: Intermediate NVQ2
Sculpture of the Human Form: Advanced NVQ3
Speech Movement NVQ2
Stained Glass: Flat Panels – Copper Foil NVQ2
Stained Glass: Flat Panels – Lead Cane NVQ2
Stained Glass: Patterns NVQ2
Stained Glass: 3D Rectangular Form – Copper Foil NVQ2
Stained Glass: 3D Form – 6 sided
Stained Glass: Domed form – Panels NVQ2
Sugar Craft NVQ2
Sugar Craft NVQ3
Textiles – Applied Techniques NVQ3
Trade Union and Labour Studies

Upholstery: Springing NVQ2
Upholstery Split Can Work: Complex Patterns NVQ2
Video Making: Insert – Edit
Video Making: Pre-Production
Water Colour Painting NVQ3
Woodcarving NVQ 2 and 3
Woodcraft NVQ2
Woodcraft NVQ3
Working in Stained Glass

SOUTH WEST WALES OPEN COLLEGE AND ACCESS CONSORTIUM (SWWOCAC)

Art and Craft Trades
Art & Design-Life Drawing NVQ3
Business Administration and Information
Child Care and Education – supporting children in the use of micro-computers
Child Care and Education – practical activities with young children
Desk Top Publishing
Developing the use of Information Technology
Emergency First Aid
First Aid in Sport
Food Technology Industry
Health Care Services
Health Studies
Patchbase Computing
Proficiency in use of micro-computers to support children's learning
Sports Leadership
Sports Studies
Teaching EFL
Technology Skills
Tourism and Sport Industry
Women in Technology
Working with Young Children

WALES TOURIST BOARD
Welcome Host

WELSH BADMINTON UNION

Advanced Coach Award
Intermediate Coach Award
Leaders Award
National Coach Award
Teacher Accreditation Certificate

WELSH HOCKEY UNION

Leaders Award – Level I
Leaders Award – Level II

WELSH JUDO ASSOCIATION

Club Coach Award
Preliminary Coach Award
Senior Coach Award

WELSH KARATE FEDERATION

Governing Body Level I Assistant Coach
Governing Body Level II Coach
Referee and Officials Award

WELSH NETBALL ASSOCIATION

'A' Coaches Award
'A' Umpiring Award
'B' Coaches Award
'C' Coaches Award
'C' Umpiring Award
Coaching Certificate
Netball Leader's Certificate

WELSH VOLLEYBALL ASSOCIATION

Junior Coaches Award

WELSH WEIGHT TRAINING ASSOCIATION

Senior Instructor/Examiner
Instructor/Examiner – NVQ Level 3 compatible
Instructor – NVQ Level 3 compatible
Coach – Level 2 compatible

Individual Courses and Qualifications Approved for use with the New Deal in Scotland

These are in addition to SVQs and GSVQs. Other courses and qualifications may be approved by the Scottish Qualifications Authority.

NATIONAL CERTIFICATE GROUP AWARDS (THE GSVQ FAMILY OF BROAD BASED AWARDS)

National Certificate Lifestart
National Certificate Workstart
National Certificate Skillstart 1
National Certificate Skillstart 2
National Certificate – (level 1)
National Certificate – Arts and Social Sciences (level 2)
National Certificate – Arts and Social Sciences (level 3)
National Certificate – Business (level 2)
National Certificate – Business (level 3)
National Certificate – Care (level 2)
National Certificate – Care (level 3)
National Certificate – Care (level 3) – Child Care and Education
National Certificate – Care (level 3) – Health Care
National Certificate – Care (level 3) – Social Care
National Certificate – Communication and Media (level 3)
National Certificate – Construction (level 2)
National Certificate – Construction (level 3)
National Certificate – Construction (level 3) – Building Services
National Certificate – Construction (level 3) – Built Environment
National Certificate – Construction (level 3) – Civil Engineering
National Certificate – Construction (level 3) – Land Use
National Certificate – Design (level 2)
National Certificate – Design (level 3)
National Certificate – Engineering (level 2)
National Certificate – Engineering (level 3) – Electronic and Electrical
National Certificate – Engineering (level 3) – Fabrication and Welding
National Certificate – Engineering (level 3) – Industrial Plant Support
National Certificate – Engineering (level 3) – Manufacture and Mechanical

National Certificate – Engineering (level 3) – Mechatronics
National Certificate – Engineering (level 3) – Practice
National Certificate – Hospitality (level 2)
National Certificate – Hospitality (level 3)
National Certificate – Hospitality (level 3) – Food and Drinks Service
National Certificate – Hospitality (level 3) – Food Preparation and Cooking
National Certificate – Hospitality (level 3) – Rooms Division Operations
National Certificate – Information Technology (level 2)
National Certificate – Information Technology (level 3)
National Certificate – Land-based Industries (level 2)
National Certificate – Land-based Industries (level 3)
National Certificate – Leisure and Recreation (level 2)
National Certificate – Leisure and Recreation (level 3)
National Certificate – Science (level 2)
National Certificate – Science (level 3) – Biology
National Certificate – Science (level 3) – Chemistry
National Certificate – Science (level 3) – Physics
National Certificate – Technology (level 2)
National Certificate – Technology (level 3)
National Certificate – Travel and Tourism (level 2)
National Certificate – Travel and Tourism (level 3)
National Certificate – Travel and Tourism (level 3) – Retail Travel

NATIONAL AWARDS (EMPLOYMENT-RELATED AWARDS)

National Certificate in Greenkeeping
National Certificate in Prison Works Management
National Certificate in Prison Industrial Management
National Certificate in Measurement and Control
National Certificate in Basic Processing
National Certificate in Processing
National Certificate in Library and Information Science
National Certificate in Engineering
National Certificate in Engineering Practice
National Certificate in Fabrication and Welding Engineering
National Certificate in Fabrication and Welding Practice
National Certificate in Electrical Engineering
National Certificate in Electrical Engineering Practice
National Certificate in Electronic Engineering

National Certificate in Electronic Engineering Practice
National Certificate in Shipbuilding
National Certificate in Shipbuilding Practice
National Certificate in Aeronautical Engineering
National Certificate in Aeronautical Engineering Practice
National Certificate in Pharmaceutical Sciences
National Certificate in Elementary Craft Baking
National Certificate in Craft Baking
National Certificate in Craft Baking Technology
Certificate in Service Engineering: Land-based Industries
Certificate in Pharmaceutical Sciences
Certificate in Medical Administration
Certificate in Training Practice
Certificate for Skills Assessors – First Line
Certificate for Skills Assessors – Second Line
Certificate for Vocational Assessors
Certificate for APL Advisers
Certificate for APL Advisers and Assessors
Certificate for Internal Verifiers
Certificate for External Verifiers
Certificate for Workbased Coaches and Assessors
Certificate for Vocational Trainers and Assessors
Certificate for Skills Trainers and Assessors
Certificate for Open Learning Practitioners
Certificate for Financial Advice Trainers
Certificate in Training Practice
Professional Development Award Certificate in Medical Administration
Professional Development Award Diploma in Continuing Special Education and Training Needs

Appendix 9

Incomes Data Services Report: 'Pay Systems and Pay Structures and the Relationship to Low Pay'

We commissioned a study from Incomes Data Services (IDS) into current pay structures and levels, and how they were beginning to adjust in anticipation of the National Minimum Wage. Below we reproduce the text of the introduction to the report, as presented to us by IDS in December 1997.

Copies of the complete report may be obtained direct from IDS at:

Incomes Data Services Ltd.
77 Bastwick Street, London EC1V 3TT
tel: 0171 250 3434
fax: 0171 608 0949
e-mail: ids@incomesdata.co.uk.

Assessing the Impact of a Minimum Wage on Pay Structures

'This will play havoc with my differentials' has always been one of the first reactions of employers to the proposal of a minimum wage. Indeed, even though Wages Councils are now seen by almost everyone as benign institutions, before they were abolished there were plenty of employers who argued that Wages Council increases had an adverse impact on differentials.

Closer examination of the issue suggests that many of the arguments used have been highly partial and prone to exaggeration. Whether or not a pay rise at the lower end of pay structures necessarily has to feed through to all other pay rates is an issue we have discussed with a number of employers in recent years.

No Evidence of Knock-on Effect

- 1 In July 1991, IDS Report looked at 120 agreements from the previous 2½ years where lower paid employees gained higher awards than their higher paid colleagues without there being any particular knock-on problems. These had occurred where the award was flat-rate in money terms (resulting in higher percentage rises at the bottom), where there was an underpinning arrangement to favour the lowest paid, through job evaluation, equal pay and regrading exercises and where young workers' pay was improved in response to demographic changes.

- 2 We concluded that the assumption that skilled unions will always seek to restore differentials in full, was doubtful in relation to a minimum wage increase. We found that the objections raised by unions were more about the context of its introduction. If craft and professional workers were asked to moderate collective bargaining as a trade-off for the minimum wage, some might fear that this would be an incomes policy through the side door. Perhaps those unions that have spoken out on the issue of differentials are more concerned about wage restraint than a minimum wage. Nothing in our current analysis has led us to alter these conclusions.
- 3 On a cautionary note, depending on its level, introduction of a statutory minimum wage could have an effect on the official Average Earnings Index. To the extent that the Index influences decisions on pay, there could be some knock-on effect. It remains the case, however, that the main Index influencing pay setting is the Retail Price Index.

New Developments Erode Rigidities

- 4 The two most outspoken advocates of the maintenance of differentials in recent times have been the EEF (in its submission to the LPC) and the leaders of the AEEU. This is odd for a number of reasons.
- 5 One is that fixed differentials between skilled, semi-skilled and unskilled grades went out, more or less, with the abolition of the National Engineering Agreement in 1989. The main purpose of the national agreement was, incidentally, to set a minimum 'fallback' rate which would protect workers in the lowest paid sections of the industry.
- 6 Secondly and more importantly, the concept of rigid differentials has been undermined by a number of key changes in the industry: the population of old unskilled or 'labourer' grades has been drastically reduced in most establishments, partly as a result of flexibility deals which expect machinists to clean up their own working area. At the same time, 'multiskilling' has led to the introduction of additional skilled grades, and harmonisation has produced restructuring of white-collar and manual grades in which many traditional distinctions become increasingly blurred and the concept of teamworking is intended to militate against such defined hierarchies.

Grade population at NatWest UK

We asked NatWest UK if it could provide us with information on the percentages of staff in each of their grades. It gave us the following data – which excludes IT staff and some sales staff – from its overall employment of 50,000 staff (data as at 30 November 1997).

Pay structures at 1 April 1997

Grade	Job examples	Minimum £pa	Maximum £pa	% of staff employed
8	Accounting officer, data keeper	7,000	9,500	2.5
7	Customer services officer (standing orders, records or cashier)	8,000	14,000	41.0
6	Investments officer, cashier 1	10,700	17,750	30.5
5	Assistant manager customers services	14,420	21,100	8.0
4	Customer services manager	16,480	26,400	7.5
3	Branch manager	21,630	37,000	8.0
2	Senior manager	27,810	50,700	2.5

Grade population at Tesco

The following table shows the number of employees within each grade among Tesco’s non-managerial stores staff. The overall total of employees within this category is 132,400. A column is included giving the percentage of this total within each grade.

Pay structures at 7 July 1997

Grade	Job examples	Provinces £ph	Nos.	% of staff employed
A	Cleaner, trolley person	4.18	1,500	1.1
B	General assistant	4.37	62,000	46.8
C	Customer services assistant	4.59	60,000	45.6
D	Semi-skilled baker, meat cutter	4.84	7,000	5.3
E	Skilled baker	5.13	1,500	1.1
F	In-store maintenance	5.46	400	0.3

7 Thirdly, ‘flat-rate’ or ‘across-the-board’ increases which favour the low paid have been a common feature of agreements in engineering – recognising that increases in the prices of everyday items affect all consumers.

Much Depends on Grade Populations

8 The fact is the potential impact of changes at the bottom of pay structures varies across firms and types of industry. In the supermarket sector of retailing the vast bulk of the workforce are on relatively low rates of pay which means that a rise in the lowest rate caused by a

national minimum wage may well have a knock on effect on slightly higher rates. But any upward pressure on the pay rates of skilled staff, such as butchers and bakers, may not result directly from an increase to the minimum. Increasing use of part-time and casual staff – tapping into the growing pool of student labour – has led to two labour markets developing for supermarket staff. The relative tightness of the skilled labour market has seen the pay of these employees move upward independently from that of the rest of the workforce.

Changing Shapes

- 9 In discussing these issues it is useful to think of organisations in terms of their shapes. Two examples of grade populations are given here and other information appears elsewhere in this report. Very few organisations these days look like the traditional pyramid shape with the boss at the apex, with the ranks of managers below, down to the mass of the workforce at the base. The 'staffing/salary' structure of supermarkets would not be a pyramid, but more of a large horizontal rectangle with a fairly separate management pyramid on top.
- 10 On the other hand there are firms in finance and engineering which have tall vertical 'staffing/salary' shapes with particular bulges at certain points where there are larger numbers of key groups of staff. In both these sectors there has been a substantial decline in the numbers of staff in the lowest grades. There are now fewer clerical staff in the banks and more professional staff, while in engineering there are fewer unskilled and semi-skilled workers. Some firms might now be shaped more like onions than pyramids.
- 11 Discussing this issue with the personnel director of a leading chemical manufacturer, we asked what shape he thought his company had become. He replied: 'a humped back camel'.
- 12 Another firm, an engineering company making flight simulators, said it employed 200 'manual' workers and 1,200 'white-collar' workers and that the manual workers were almost all highly skilled and becoming 'crafticians' while the white-collar workers were really white-coated and were technicians and professional engineers. Perhaps this firm could be described as diamond shaped, with the centre of gravity moving upwards to create a kite shape.
- 13 In the mid-1990s we noticed that the textiles manufacturing component of the average earnings index was running ahead of a number of other manufacturing sectors. We discussed the figures with senior personnel managers at a large textile manufacturer and the explanation seemed to be that because of intense international competition there was substantial investment in state of the art technology in the manufacturing process. This meant that the workforce profile had changed, with many fewer unskilled or semi-skilled workers and only highly skilled employees remaining who work the new equipment. Thus the average of the smaller, more skilled workforce was rising faster than elsewhere. However, this is only part of the picture. This advanced sector of textile manufacturing is

not to be confused with less developed and lower paid areas of textile production and clothing manufacturing let alone with service sector firms.

What This Means

- 14 All the foregoing arguments relate to the potential impact of the introduction of a minimum wage in different firms and sectors. Our conclusions are:
 - Firms that have removed the bottom grade(s) in a structure in the past year, either for recruitment reasons, or in anticipation of a minimum wage, or under trade union pressure have not expressed undue concern in public about the cost of the exercise.
 - Regrading and new weights being given to jobs have been common in recent years and employees are used to certain groups receiving slightly different treatment in pay reviews. In particular, where pay levels at the bottom of structures have been improved this has frequently been viewed with approval by colleagues rather than seen as a cause of dispute.
 - Much depends on the grade populations at the bottom of the structure. They might be numerous, as in retailing and catering, or completely de-populated elsewhere. In firms that have 'downsized' in the recent past, they have frequently stopped recruitment and some lower grades in the structure can be empty.

Appendix 10

Labour Turnover and the Low Paid

1 Whether a National Minimum Wage will reduce staff turnover among the low paid is an important question. In this appendix we consider the factors affecting labour turnover, the costs of such turnover and the possible effects of the National Minimum Wage upon it.

Factors Affecting Labour Turnover

- 2 The Institute of Personnel and Development (IPD) defines labour turnover (also commonly known as job separations) as the number of leavers in a set period, divided by the average number employed in that period. An individual may leave the job voluntarily (for example, to take up a better job offer) or involuntarily (for example, because of dismissal for poor performance or redundancy). There are many possible definitions of turnover, and a note of caution is required when comparing the results from different surveys.
- 3 There are a number of factors that may influence labour turnover rates. These include whether employment is full-time or part-time, the sex of the employee, the economic cycle and unemployment levels, the level of pay, the industry, the occupation and the establishment size. Most studies measure labour turnover by a relatively crude 'separation index' that makes no distinction between new starters and experienced workers. Research commissioned by the Department for Education and Employment found that overall employee turnover in the years 1993 to 1997 ranged from 11 per cent to 21 per cent (IFF Research Limited, 1997). A survey by IPD found that average labour turnover for full-time workers in 1996 was 16 per cent compared with a figure of 22 per cent for part-time workers (IPD, 1997a). These figures are similar to a recently published Confederation of British Industry (CBI, 1997a) survey on labour turnover.
- 4 Most research highlights a link between labour turnover and the economic cycle. The Workforce Industrial Relations Survey in 1990 showed that turnover rates were highest in travel-to-work areas that had low

unemployment rates and lowest in those with high unemployment rates (Millward et al., 1992).

- 5 It is also clear that labour turnover is concentrated in those industries and occupations where low pay is concentrated. The IPD survey (IPD, 1997a) found that the industry with the highest turnover rate was 'hotels and leisure' which had a turnover rate of 35 per cent. This rate was over three times higher than in 'chemicals manufacture', the industry with the lowest level of turnover. Labour turnover also varies by occupation. The IPD survey showed that in 1996 the occupations with the highest turnover rates were 'sales' and 'routine unskilled' occupations, with turnover rates of 24 per cent and 21 per cent respectively. These were double the rates for the occupations with the lowest turnover, namely 'management/administration' and 'associated professional and technical' occupations.
- 6 Evidence is inconclusive on whether turnover varies by establishment size. The study for the Department for Education and Employment (IFF Research Limited, 1997) found that turnover rates fell as the size of the establishment increased. On average, a firm with 25–49 employees had a turnover rate over three times as high as that for a firm with more than 500 employees. Research by Martin (1997) also found that larger firms had lower turnover than smaller firms. The Labour Force Survey (LFS, Spring 1997) showed that average job tenure increases steadily with establishment size. The latest CBI survey (CBI, 1997a), however, found no evidence of a relationship between labour turnover and establishment size while other studies such as those conducted by the London TECs and APAC (Industrial Relations Services, 1996a) found that private sector organisations with more than 1,000 employees had a higher turnover rate than those with fewer employees.
- 7 Turnover is lower in firms that pay higher wages, offer good career prospects and recognise unions (Martin, 1997). Evidence to support the view that turnover declines with higher pay can be found in Table A10.1. This shows that at higher wage levels, fewer employees are looking for an additional or different job.

Table A10.1

Employees Looking for Alternative Employment (%)								
Seeking different or additional paid job	<£2.50	<£3.00	<£3.50	<£4.00	<£4.50	<£5.00	≥£5.00	Total
Yes	12.4	11.1	9.3	9.4	8.8	7.6	6.4	7.3
No	87.6	88.9	90.7	90.6	91.2	92.4	93.6	92.7

Source: LFS, Spring 1997

- 8 Male job tenure is higher than female job tenure, according to Gregg and Wadsworth (1995b). This is, however, largely because women are more likely to be in part-time employment than men, and part-time workers have higher turnover rates than full-time workers. In addition, average male job tenure has been declining, while average female job tenure has been rising. Gregg and Wadsworth also found that half of all job changes occur before the age of 30 and a quarter before the age of 20. Those in the lowest skill quartile were found to be more likely to leave or to lose their jobs than the more skilled.
- 9 There is support for these findings in research by Meitzen (1986). This found that women were more likely to quit than men, and that older workers were less likely to quit than younger workers. The research also found that while the probability of quitting declined with tenure for men, it increased with tenure for women. The CBI survey showed that the probability of leaving a job declined with tenure for part-time workers and, over some periods, for full-time workers. The IPD study found almost no relationship between quit rates and tenure, however, with almost a third of employees leaving a job having more than five years' service with their employer.
- 10 In summary, labour turnover is higher for part-time workers, women, the young and the unskilled. It may also be influenced by the industry, occupation, job tenure, and possibly by the size of the establishment in which the individual works.

Cost of Labour Turnover

- 11 Labour turnover imposes costs on employers in four areas: leaving costs, replacement costs, transition costs, and indirect costs. Leaving costs can be thought of as payroll and personnel costs (for example, any payments made to the leaver such as redundancy payments and the cost of personnel time in administering the departure). Replacement costs are those associated with the search for a replacement employee; these include recruitment costs, the costs of interview time and any placement fees that the company may incur. Transition costs include training costs, both direct (e.g. courses) and indirect (e.g. supervisors spending time teaching the new employee), the costs of induction and the loss of productivity incurred while the new employee is coming up to speed. Indirect costs can be seen as the loss of customer service and/or satisfaction as a result of labour turnover. Furthermore, no matter how sophisticated the selection procedure, any recruitment decision involves some risk on the part of the employer.
- 12 Clearly some of the costs of labour turnover are extremely difficult to measure, not least because organisations may be inconsistent in their definitions of labour turnover costs and many organisations will not collect all the data. It would be reasonable to hypothesise, however, that turnover costs are higher in industries and occupations where the worker requires a higher level of skill or training, or where the pool of potential replacement workers is small and/or geographically diverse.
- 13 The IPD survey (IPD, 1997a) attempted to quantify the costs of labour turnover. The occupation with the highest turnover cost is 'management/administration'. IPD estimated that the average cost from turnover of replacing 'routine unskilled' workers, the lowest cost group, was £735. The differences in the estimated costs of turnover are likely to reflect a range of different factors, such as labour availability, salary and training costs. IPD does not collect data on the relative importance of these costs but is clear that turnover can impose considerable costs on a firm. Indeed, even though steps to reduce turnover may impose additional costs on employers, there are potentially substantial savings to be made from reducing labour turnover.
- 14 If labour turnover imposes costs on employers, why do they not do something about it? There are essentially two answers to this question. The first is that labour turnover may not always represent a cost to the employer. For example, it may be that those individuals who leave are disgruntled employees with low productivity. Employers may feel that they are better off without them. Furthermore, high levels of labour turnover may be advantageous to the employer (Kearns, 1994). Fast food restaurants, for example, may benefit from high turnover as it allows them to take advantage of the short-term enthusiasm of their employees. In addition, turnover may reduce the wage bill if the new entrant is paid less than the leaver. Finally, turnover may inject new blood and fresh ideas into the workplace. This may have a positive effect on productivity.
- 15 Another possible answer, however, is that firms may simply be unaware of their turnover rates and the costs imposed on their business. There is certainly some anecdotal evidence to support this, but there is no information on how many or what type of firms are ignorant of their turnover rates and costs.

Effect of the National Minimum Wage on Turnover

- 16 Labour turnover occurs between two states: workers moving from job to job, or from a job to unemployment or economic inactivity. A National Minimum Wage may reduce labour turnover by making the financial reward to a worker for staying in the current job higher than for moving to another job, or into unemployment or economic inactivity. In other words a National Minimum Wage could improve the relative wage, i.e. the current wage relative to any other potential wages or out-of-work benefits.

Job-to-Job Turnover

- 17 Salop (1979) argued that labour turnover imposes costs on the firm. These costs directly and adversely affect its profits. Hence employers may be able to improve their profits by reducing labour turnover. They could do this by paying a wage higher than their competitors. There would then be a financial penalty for the worker in moving from the high-paying firm to a lower-paying firm. By making the financial reward of changing jobs less or even negative, the firm should reduce turnover. It would, however, increase its wage bill. Which of these two effects dominates, and therefore whether reducing turnover improves profitability, depends on the relative costs and savings. Empirical support for Salop's model comes from research by Martin (1997) who found that firms which pay more tend to have lower levels of turnover.
- 18 To the extent that a National Minimum Wage will raise the wages of workers in some firms more than in others (i.e. change relative wages), Salop's model is instructive. Turnover would be expected to decline in industries and occupations that give higher increases in wages than average. This is because the possible wage gain that employees might receive by changing jobs will have reduced.
- 19 There is evidence that, in general, small firms pay lower wages than large firms. Brown and Medoff (1989) examined this phenomenon in the USA and found that part of the wage differential between small and large firms was accounted for by the fact that large employers hired better quality labour. Even allowing for this, they found that large employers still paid their employees more than small ones. They were unable to explain this phenomenon and named it the 'employer-size wage effect'.
- 20 In the UK, Gregory and Thomson (1990) found similar evidence of an employer-size wage effect. This is further supported by LFS data which also indicate an employer-

size wage effect. Small firms generally pay their workers less than large firms, so there is a premium associated with working for a large firm. It would, therefore, seem logical to suggest that, to the extent that the National Minimum Wage raises the wages of workers in small firms relative to those in large firms, the wage premium associated with working in a large firm will fall. As a result, labour turnover in small firms should fall.

- 21 In addition, as women tend to be paid less than men, to the extent that the National Minimum Wage raises women's pay relative to men's pay, there may be a reduction in female turnover; to a large extent this will be dependent on the extent to which women's turnover is based on wage considerations.
- 22 Salop's theory and the preceding analysis rely on the National Minimum Wage changing relative wages, but this may not occur. A firm may choose to give a wage rise which takes its lowest-paid staff above the National Minimum Wage precisely to preserve the wage premium that it has always offered over competitors. Thus the wage advantage associated, for example, with working for a large firm may not fall. It may remain constant or increase, in which case turnover may not change or may rise for the competitor which now pays exactly the amount of the National Minimum Wage to its lowest-paid staff. The key issue is what happens to relative wages, and the impact of the National Minimum Wage on that remains unclear.

Turnover From Jobs to Unemployment or Economic Inactivity

- 23 Gregg and Wadsworth (1995b) found that over 40 per cent of workers leaving a job went into unemployment or economic inactivity. They also found that, over time, flows from jobs to economic inactivity and from unemployment to economic inactivity had risen. They found that for those workers who left employment without securing a job, future labour market prospects had become increasingly insecure and unstable. These findings concur with those of Gregory and Jukes (1997) who found that spells of unemployment harm an individual's earnings prospects, at least over the short run. The picture is one of an increasing number of individuals leaving jobs for unemployment or economic inactivity. An unemployed or economically inactive individual then faces the prospect of returning to work in a low-paid, insecure job.
- 24 Whether a National Minimum Wage will reduce the turnover of low-paid workers is unclear and depends on their motivation for leaving their jobs. Some workers

may leave their jobs voluntarily, others involuntarily. In their study, Gregg and Wadsworth (1995b) found that low-paid jobs are relatively insecure. Hence a large proportion of job separations for these workers may be involuntary (for example, they may occur because the employer terminates a contract). Table A10.2, taken from the LFS, shows the reasons why individuals who are currently unemployed left their last job.

Table A10.2

Reasons Why Unemployed Individuals Left Last Job	
Reason for leaving last job:	% of all those who left a job
Dismissed	6.3
Made redundant/voluntary redundancy	25.8
Temporary job ended	21.8
Resigned	12.8
Gave up work for health reasons	6.5
Took early retirement	1.5
Retired (at or after statutory age)	0.8
Gave up for family/personal reason	12.0
Left for some other reason	12.5
Total	100.0

Source: LFS, Spring 1997

- 25 Table A10.2 shows that about 45 per cent of turnover from work to unemployment could be voluntary. The National Minimum Wage may be one of a range of factors that workers take into account when considering leaving their job. But there may be other important considerations such as ill health or family commitments. The effect of the National Minimum Wage may also depend on the circumstances of the low-paid worker (for example, whether they are second or third earners). To the extent that the National Minimum Wage improves low-paid workers' wages relative to the income from state benefits, it may reduce voluntary turnover.
- 26 A rough estimate is that 27 per cent of turnover from work to unemployment may be influenced by the National Minimum Wage, or around 11 per cent of all job turnover. This will be the case provided that the interaction of the National Minimum Wage and the state benefits system makes these individuals better off in work than out of it.

Conclusion

- 27 Labour turnover is most prevalent among part-time workers, women, the young and the unskilled. Labour turnover also varies according to industry, occupation, job tenure, the presence of a union, and the size of the employing business. The more highly qualified and harder to recruit the worker, the greater the costs of turnover.
- 28 Economic theory indicates that the introduction of the National Minimum Wage may reduce labour turnover. First, if it raises the wage that workers earn with their current employer relative to the wage they could earn with another, then turnover will fall. This effect is likely to be strongest for small firms which currently pay their workers less than larger firms.
- 29 Second, a significant proportion of workers move from employment into unemployment or inactivity. If the National Minimum Wage makes work more attractive than benefits, then this form of turnover should be reduced.

Appendix 11

Econometric Studies on the Impact of Statutory Minimum Wages on Employment

- 1 In recommending the level of the National Minimum Wage our terms of reference required us to ‘have regard to the wider economic... implications, including ‘the likely effects on employment and inflation’. We were also asked to make recommendations on lower rates of the National Minimum Wage or exemptions for younger people. Such recommendations clearly carry an economic dimension.
- 2 We reviewed a wealth of information on the possible impact of a National Minimum Wage on employment, drawing on academic and other research, particularly in relation to likely implications for the employment opportunities of young people. The evidence covered research into both macroeconomic and microeconomic data and was helpfully summarised in tables produced in the Government’s evidence to the Commission and in publications produced by Fernie and Metcalf (1996) and the Organisation for Economic Co-operation and Development (OECD, 1998b).
- 3 Summary tables from these three sources have been reproduced in Tables A11.1 to A11.3 below. While there is some overlap in the studies summarised in the tables, the areas of coverage are discrete. The tables are not necessarily comprehensive but they do include major studies that have been consulted by us during our work.
- 4 Table A11.1a summarises research on the impact of Wages Council wage-setting on employment up until their abolition in the early 1990s (1993: England and Wales, and Scotland; 1994: Northern Ireland) and is reproduced from Fernie and Metcalf (1996). The findings suggest that for the period up until the early 1980s increases in the minimum rates were associated with reductions in employment in the sectors covered. Research looking at more recent data tends not to find such a relationship, a result that some researchers have attributed partly to a decline in the relative position of the minimum rates compared with average pay in those sectors (the ‘toughness’ measure). This later research is in line with findings from the USA (see Card and Krueger, 1995; summarised in Table A11.3) and has been attributed by some researchers to the effects of monopsony in some sectors, that is, where employer power leads to workers being paid less than their marginal product. Table A11.1b summarises research based on the effects of the abolition of the Wages Councils on employment in previously covered sectors (reproduced from Fernie and Metcalf, 1996). The research by Dickens et al. (1995c) finds no evidence that the Wages Councils’ share of total employment significantly rose in the quarters following abolition.
- 5 Table A11.2 summarises US and other international research into the effects of an increase in minimum wages on youth employment (reproduced from Government Evidence). US time-series studies, summarised in Table A11.2a, cover various periods between 1954 and 1988. The researchers concluded that a 10 per cent increase in the minimum wage would reduce the employment of 16–19 year olds, with varying estimates of the decline. Cross-sectional and panel data evidence, reproduced in Table A11.2b, covering periods between 1973 and 1991, also points to a negative relationship between increases in the minimum rate and youth employment, although in one case there was a positive effect and in another the effect was neutral. Research in other OECD countries (Table A11.2c) also generally concludes that the relationship is negative, although in four cases the effects were estimated as being neutral.

Table A11.1

Impact of Wages Councils on Employment and the Effects of the Abolition of the Wages Councils			
a) Impact of Wages Councils on Employment			
Author	Sample	Definition of Statutory Minimum Wage (SMW)	Elasticity of employment with respect to pay
Econometric: All Wage Council Sectors			
Kaufman (1989)	Sectors covered by SMW 1971–79 n=54 to 186	Real product SMW i.e. SMW ÷ product price	-0.06
Bazen (1990)	16 2-digit SIC industries 1968–93	% of male median pay	-0.06 0.50 male median: 246,000 jobs lost 0.67 male median: 885,000 jobs lost
Dickens, Machin, Manning (1994)	NES 12 largest Wages Councils 1978–90 n=138	Toughness defined as (SMW/average) by sector	+0.15 to +0.54
	NES 18 Wages Councils 1978–92 n=162		+0.05 to +0.43
Econometric: By Sector			
Morgan et al. (1985)	Clothing industry 1950–81	Real product SMW i.e. SMW ÷ product price	Male: -0.15 to -0.30 Female: -0.20 Overall: -0.27
Canning and Tarling (1985)	Clothing industry 1950–81	Real SMW i.e. SNW ÷ RPI	Overall: -0.05
Lund et al. (1982)	Agriculture 1960–80	Real product SMW i.e. SMW ÷ product price	+0.03 to +0.45
Dickens et al. (1995b)	Agriculture 1954–91	Toughness defined as SMW/average	Males: +0.1 to 0.2 Females: +0.1 to 0.2
Machin and Manning (1994)	NES 10 Wages Councils 1979–90 n=108	Toughness, defined as (SMW/average) by sector	Catering: +0.99 Retail: +0.60 Clothing: +0.27 Hairdressing: -0.45

Source: Fernie and Metcalf (1996)

b) Abolition of Wages Councils and Employment			
Author	Sample	Indicator	Findings
Econometric Evidence			
Dickens et al. (1985c)	LFS	(a) Wages Council (WC) share of employment (%)	
see also Dickens and Manning (1995)	All Wages Councils and 7 largest Wages Councils	(i) All Wages Councils	WC share of employment:
		Year prior to abolition	Before abolition 11.7%
		Year after abolition	After abolition 11.8%
		(ii) 7 largest Wages Councils	“Very small changes”. Share of total employment accounted for by clothing, licensed residential and restaurants and retail rose. Licensed non-residential establishments and hairdressing fell
	As above	(b) Calculate from transitions to generate steady state Wages Council share of employment (%)	Year before abolition (%)
			All 12.0
			Men 7.4
			Women 16.5
			Quarter after abolition (%)
			All 11.7
			Men 7.3
			Women 16.2
	92 Jobcentres	(c) Unemployment and vacancies	cf July 1993 (just before abolition) and April 1994 (6 months after abolition). No association between extent of fall in wages across the 92 Jobcentres and the resulting changes in unemployment and vacancies
Craig et al. (1980)	Abolition of Cutlery Wages Council		No evidence of an increase in employment, rather “the industry continued to decline rapidly” (post 1969 abolition)
Craig et al. (1982)	Abolition of 6 Wages Councils in late 1960s, early 1970s viz: Cutlery, Jute, Paper Bag, Baking, Boot and Floor Polish, Brush and Broom		As above, “Wages Councils desirable”
Crossman (1995)	Abolition of Licensed Residential Establishment Wages Council	Changes in pay and employment in 4 hotels in central London	“Deterioration of pay in real terms” “the argument that abolition would lead to increased employment opportunities has been rejected by all participating in the research”

Source: Fernie and Metcalf (1996)

Table A11.2

International Evidence on the Effects of Minimum Wages on Youth Employment		
a) US Time-Series: Estimated Impact of a 10 Per Cent Increase in the Minimum Wage on Employment of 16–19 Year Olds		
Study	% Change in employment	Period
Kaitz (1970)	-0.98 ^a	1954–1968
Kosters and Welch (1972)	-2.96 ^b	1954–1968
Kelly (1975)	-1.2 ^b	1954–1968
Kelly (1976)	-0.66 ^b	1954–1974
Gramlich (1976)	-0.94 ^b	1948–1975
Hashimoto and Mincer (1970) and Mincer (1976)	-2.31 ^b	1954–1969
Welch (1976)	-1.78 ^a	1954–1968
Ragan (1977)	-0.65 ^b	1963–1972
Matilla (1978)	-0.84 ^b	1947–1976
Freeman (1979)	-2.46 ^b	1948–1977
Wachter and Kim (1979)	-2.52 ^b	1962–1978
Iden (1980)	-2.26 ^b	1954–1979
Ragan (1981)	-0.52 ^b	1963–1978
Abowd and Killingsworth (1981)	-2.13	1954–1979
Betsey and Dunson (1981)	-1.39 ^b	1954–1979
Boschen and Grossman (1981)	-1.50	1948–1979
Hammermesh (1981)	-1.21	1954–1978
Brown, Gilroy and Kohen (1983)	-0.96	1954–1979
Solon (1985)	-0.99 ^a	1954–1979
Wellington (1991)	-0.60	1954–1986
Klerman (1992)	-0.52 ^a	1954–1988
AVERAGE OF THE ABOVE	-1.40	
RANGE OF THE ABOVE	-0.52 TO -2.96	

Sources: Brown et al. (1982); Card and Krueger (1995)
 Reproduced from Government Evidence

a Statistically significant at the 10 per cent level.

b No significance tests are available because reported coefficients were derived from disaggregated data.

b) US Cross-section and Panel Data Evidence			
Estimated Impact of a 10 Per Cent Increase in the Minimum Wage on the Employment of Youths			
Study	Sex/age	% Change in employment	Period
Ashenfelter and Card (1981)	All, 16–19	=0	1973–1975
Meyer and Wise (1983b)	All, 16–24	<0 ^a	1973–1978
Neumark and Wascher (1992)	All, 16–19	<0 ^a	1973–1989
Williams (1993) ¹	All, 16–19	–3.3 ^a	1977–1989
Currie and Fallick (1994)	All, 16–19	<0 ^a	1980–1981
Neumark and Wascher (1995)	All, 16–19	–1.3 ^a	1979–1991
Deere, Murphy and Welch (1995)	All, 15–19	–6.3 ^a	1990–1991
Card and Krueger (1995) ²	All, 16–19	>0	1973–1989
Burkhauser, Couch and Wittenburg (1996)	All, 16–19	–8.7 ^a	1990–1991
	All, 16–24	–3.6 ^a	

Reproduced from Government Evidence

Notes:

- 1 Based on Williams (1993) second approach using the minimum wage deflated by the implicit price deflator for gross State product; Williams first approach, using the ratio of the Federal minimum wage to the average manufacturing wage in each State, also produced statistically significant negative results.
 - 2 Re-estimation of Neumark and Wascher's (1992) results using a different school enrolment variable; Card and Krueger also re-estimated Williams (1993) results using additional State dummies and found a positive effect from the minimum wage on teenage employment.
- a Statistically significant at the 10 per cent level; sign and magnitude of the employment effect indicated where no point estimate is available.

c) Evidence from Other OECD Countries			
Estimated Impact of a 10 Per Cent Increase in the Minimum Wage on Employment of Youths			
Country/study	Sex/age	% Change in employment	Period
Canada			
Swidinsky (1980)	Males, 16–19	–1.0 ^a	1956–1975
	Females, 16–19	–2.7 ^a	
Schaafsma and Walsh (1983)	Males, 15–19	–1.7 ^a	1975–1979
	Males, 20–24	–2.0 ^a	
	Females, 15–19	–2.8 ^a	
	Females, 20–24	–2.1 ^a	
France			
Rosa (1981)	Males, 15–24	<0 ^a	1963–1979
	Females, 15–24	<0 ^a	
Martin (1982)	Males, 15–19	–2.2 to –4.6 ^a	1968–1991
	Females, 15–19	=0	
Bazen and Martin (1991)	All, 15–24	–0.9 to –2.3 ^a (Adults = 0)	1963–1986
Benhayoun (1994)		=0	
Abowd et al. (1995)		<0 ^a	
Bazen and Skourias (1997)		<0 ^a	1981
Netherlands			
Salverda (1992)		=0	1979–1983
van Soest (1994)	Males, 16–23	–5.1 ^a	1987
	Females, 16–23	–5.9 ^a	
Koning et al. (1994)		<0 ^a	
Dolado et al. (1996)		=0	1981–1983
New Zealand			
Maloney (1995)	All, 20–24	–3.5 ^a	1985–1993
Spain			
Dolado et al. (1996)	All, 16–19	–1.5 ^a	1967–1994
		(Total employment: +0.8 ^a)	
Hevia and Schwartz (1997)	All, 16–17	–2.0 ^a	

Reproduced from Government Evidence

^a Statistically significant at the 10 per cent level; sign and magnitude of the employment effect indicated where no point estimate is available.

- 6 More recent international research on the effects of minimum wages on employment generally is summarised in Table A11.3 (reproduced from OECD, 1998b). These tables bring up to date a similar compendium produced by Brown et al. in 1982. Research studies are summarised under (a) time-series studies; (b) pooled, cross-sectional studies; (c) longitudinal studies; and (d) other. On balance, the studies continue to find a negative relationship between minimum wages and employment, particularly youth employment. Some studies, however, find either a neutral effect on employment or a slight increase.

Table A11.3

Recent Empirical Studies of the Impact of Minimum Wages on Employment				
Study	Country/ data sources	Method/ outcome measures	Main results	Comments
a) Time-series studies				
Bazen and Martin (1991)	France: Annual time-series data, 1963/68–1986.	Structural time-series model with labour demand and wage equations and derived employment elasticities.	Employment elasticities are negative, but not robust for youths and zero for adults.	Assumption of a competitive labour market is imposed on the data.
Benhayoun (1994)	France: time-series data, 1975–1991.	Time-series regressions.	No significant evidence of negative youth employment effects.	The minimum wage may be endogenous to the model. Results are sensitive to the specification adopted.
Koutsogeorgopoulou (1994)	Greece: Labour Force Survey 1962–1987.	Applied the Bazen-Martin specification.	Employment elasticities of the minimum wage are negative for men and positive for women.	Assumption of a competitive labour market is imposed on the data.
Maloney (1995)	New Zealand: Labour Force Survey, 1985–1994. Minimum wages did not apply to youth (15–19) before 1994.	Regression of employment/population ratio for youth and young adults (20–24) on Kaitz index. School enrolment rate included among the regressors.	An increase in (adult) minimum wages raises youth employment rates and reduces young adult employment.	Possible endogeneity of the Kaitz index. School enrolment rates may be endogenous.
Mare (1995)	New Zealand: Labour Force Survey, 1985–1994.	Same regressions as Maloney.	Youth employment rates kept growing after youth minimum wage was introduced in 1993–1994. Maloney's results were explained by the cycle not by minimum wages.	Same critique that applied to Maloney's results.

Study	Country/ data sources	Method/ outcome measures	Main results	Comments
Bell (1995)	Mexico and Columbia: monthly wages from Annual Industrial Surveys of manufacturing firms, 1984–1990. Mexican Household Survey 1988.	Time-series regression of employment/ population ratio on Kaitz index. Panel data estimation of factor demand equations for unskilled and skilled labour. Fixed effects are assumed.	Significant negative employment elasticity for Columbia. Insignificant for Mexico. Negative employment effects for the low skilled.	Robustness of the results of estimation not tested.
Card and Krueger (1995)	US: time-series data 1954–1993.	Time-series regressions.	No statistically significant teenage employment effects.	The minimum-wage ratio may be endogenous to the model. Results are sensitive to the specification adopted.
Deere et al. (1995)	US: Current Population Survey 1985–1993.	Regression of employment/ population ratios on minimum wages.	Teenage employment falls as minimum wage rises.	The minimum wage may be endogenous to the model. Results are sensitive to the specification adopted.
Bazen and Marimoutou (1997)	US: time-series data 1954–1993.	Time-series regression. Re-estimated the Card-Krueger (1995) equations using several controls for seasonality and the cycle.	Significant negative employment elasticities for teenagers.	The estimates are sensitive to the method adopted.

Study	Country/ data sources	Method/ outcome measures	Main results	Comments
b) Pooled, cross-sectional studies				
Card (1992); Card and Krueger (1995)	US: Current Population Survey (CPS), 1987–1989. State data on employment and wages.	Employment of teenagers, low-paid workers and retail employees is compared across States with higher and lower fractions of workers earning between the old and new Federal minimum wage. Regressions of changes in employment.	In all cases, there is no significant reduction of employment in response to rise in Federal minimum.	Only short-term employment changes are captured.
Neumark and Wascher (1992)	US: 50 States and District of Columbia, 1973/77–1989. Information on state minimum wage legislation; subminimum provisions.	Regressions of employment/population ratios on coverage-adjusted minimum wage. Year and state fixed effects.	Significant negative employment effects for teenagers and young adults employment, larger for teenagers. Subminimum wages imply more moderate effects.	School enrolment rate, included among the regressors, may be endogenous. If dropped, employment effects are positive (but insignificant) for teenagers and negative (significant) for young adults.
Machin and Manning (1994)	UK: New Earnings Survey, minimum wages levels in Wages Councils, 1979–1990.	Regressions of employment changes on Kaitz index. First differences and instrumental variables.	Positive relationship between minimum wages and employment.	There may be other (uncontrolled) factors explaining these results. Wage Councils were modified substantially before their abolition.
Bazen and Skourias (1997)	France, cross-section time-series data from French Labour Force Survey, 38 industrial sectors, 1980–1984.	Investigate changes in proportions employed at minimum and subminimum wages.	Significant negative youth employment effects.	Other factors explaining youth employment levels are not taken into account such as, for example, sectoral labour demand, output growth, prices.

Study	Country/ data sources	Method/ outcome measures	Main results	Comments
Dolado et al. (1996)	France: Labour Force Survey data grouped by education and age and gender. 1981–1985 minimum wage increase compared with 1985–1989. Regional data also used.	Regressions of employment/unemployment rate on proportion paid at or below the minimum wage for each cell. Regression of employment growth on initial wages, regional data.	The increase in minimum wages in the 1980s has no substantial effects on employment.	The authors find some econometric evidence that youth unemployment increased in the 1980s, but attribute this mainly to the recession rather than to the higher minimum wages.
	Netherlands: Labour Force Survey, 1981 and 1983, when youth minimum wages were reduced.	Descriptive analysis of youth employment changes in low-wage sectors.	Youth employment rose in low-wage sectors, which are assumed to be more affected by the fall in youth minimum wages.	No attempt is made to control for other factors that may explain employment changes.
	Spain: Panel of industrial sectors. Data on employment and wages, 1967–1994.	Regression of change in employment on Kaitz index with sector fixed effects. Estimated by Instrumental Variables.	The Kaitz index has a significantly negative impact on youth employment but a positive impact on adult employment. Total employment rises with higher minimum wages.	Year fixed effects are not controlled for.
Burkhauser et al. (1997)	US: CPS and SIPP, 1990. Monthly data, pooled cross-sections.	Regressions of employment/population ratios on minimum wage.	Significant negative effects on employment of teenagers, young high school dropouts and young blacks, but insignificant effects for prime-age workers.	Short period of time covered. Possible endogeneity of the minimum wage.
Baker et al. (1997)	Canada: data from Labor Canada and Statistics Canada, 1975–1993.	Regression of teenagers employment/population ratio on Kaitz index. Fixed effects assumed for provinces and years.	Significant negative employment elasticities for teenagers.	The estimated effect varies in sign and significance with different econometric specification.

Study	Country/ data sources	Method/ outcome measures	Main results	Comments
c) Longitudinal studies				
Card and Krueger (1995, 1997)	US: Fast Food Restaurants in New Jersey and Pennsylvania, 1992, before and after minimum-wage increase in New Jersey; before and after minimum wage increase in Pennsylvania in 1996.	“Natural experiment” and Bureau of Labor Statistics Employment data. Longitudinal data and repeated cross-sections. Regressions of changes in employment on New Jersey dummy and/or wage gap (from initial wages to new minimum wage level).	Employment increased (insignificantly) in New Jersey relative to Pennsylvania, in 1992. No evidence of employment losses in Pennsylvania, in 1996.	Timing of surveys too close to legislated changes to observe possible long-run adjustments in labour demand.
Neumark and Wascher (1995)	US: CPS data 1979–1992. Matched surveys to construct longitudinal data for individuals.	Estimate effect of minimum wages on transitions of teenagers in and out of education and work. Multinomial logit models.	Employers substitute less-skilled teenagers with more-skilled teenagers. Employment of the low-skilled is reduced and enrolment rates fall.	Unobserved individual characteristics may be difficult to control for.
Currie and Fallick (1996)	US: National Longitudinal Survey of Youth, 1979–1987. Pooled cross-sections.	Panel data model of the impact of minimum wages on the transitions between employment and unemployment.	Individuals affected by the minimum wage in 1979–1980 were less likely to be employed a year later.	Missing employment data may affect estimation results (wage data are valid only for 30% of the sample in 1979 and 46% in 1980).
Abowd et al. (1997)	US: Longitudinal, individual data. CPS, 1981–1987. France: Labour Force Survey, 1981–1989.	Multinomial logits of transitions into and out of employment for workers paid below and above the minimum wage.	Youth paid at minimum wages have significantly lower employment probabilities than those paid marginally above in both countries.	Unobserved individual characteristics may be difficult to control for.
Chapple (1997)	New Zealand: quarterly time-series data 1980–1997, panel of industries 1980–1997.	Time-series model. Panel data model.	Negative employment effects for 20–24 year olds, but results are not robust.	There might have been a structural break in the 1990s; time-series data cover a relatively short period.

Study	Country/ data sources	Method/ outcome measures	Main results	Comments
d) Other studies				
van Soest (1994)	Netherlands: macro time-series and Dutch Socio-Economic Panel, 1984 and 1987.	Multinomial choice model: employment, unemployment, education. Potential wages are also estimated and wages allowed to be endogenous.	There is a significantly negative impact of minimum wages on youth employment.	The negative outcome is built in the structural model.
Dickens et al. (1994)	Cross-sectional data on the distribution of wages in the UK.	Estimate employment losses by comparing the actual wage distribution with the hypothetical wage distribution in the absence of the minimum wage.	Negative employment effects of minimum wages, but not robust. The results are sensitive to specification of the wage equation.	Estimates are sensitive to the functional form of the distribution of wages. The method relies on the assumption that workers earnings above the minimum are not affected by the minimum wage.

Source: OECD Employment Outlook (OECD, 1998b)

Conclusion

- 7 We acknowledged at the outset of our work that, because of the longevity of most minimum wage arrangements, both in the UK and overseas, it would not be possible to draw on research based on the introduction of a minimum wage as distinct from research looking at the impact of raising minimum wage levels or, in the UK context, of reducing the scope of existing arrangements or their outright abolition. We found that the bulk of research we studied focused on the effects of minimum wages on employment and that there was little available evidence regarding the impact on productivity or inflation. Finally, we noted that while macroeconomic research pointed to an unambiguously negative relationship between minimum wages and employment, especially youth employment, there is more controversy in recent microeconomic research, about the direction of the employment effect.

Appendix 12

Compliance and Pay Slips

Pay Information for Employees

- 1 A means by which employees will be able to check that they have been paid the National Minimum Wage is through their itemised pay statement or 'pay slip'. The current legal requirement under the Employment Rights Act 1996 is that every employee has the right, at or before the time of payment, to be given a written itemised pay statement by his/her employer. An employee's right to a pay statement is absolute and does not depend on an employee requesting one. The statement should contain particulars of the following:
 - the gross amount of wages or salary;
 - the amounts of each variable and fixed deduction from the gross amount with a note of its purpose;
 - the net amount of wages or salary; and
 - if different parts of the net amount are paid in different ways, the amount and method of each part payment.
- 2 For the purposes of this provision, and in contrast with the position for tax purposes, tips paid by customers directly to the employee are not considered 'wages'.

What Will Be Required?

- 3 The definition of the National Minimum Wage which we have recommended requires that an employee knows the composition of gross earnings, so that a check can be made on whether the employer has excluded relevant pay additions when meeting the legal obligation to pay the National Minimum Wage (e.g. overtime and shift premia). The employee will also need to know how many hours have been worked within the pay period for which the National Minimum Wage is applicable.

Current Organisational Practice

- 4 According to the Institute of Payroll and Pensions Management (IPPM), practice on what information is included on the pay slip varies from organisation to organisation, but one clear trend emerges. The level of information on the pay slip concerning the composition of earnings tends to reflect the size of the organisation and the complexity of the pay system. Where pay systems are complicated and the organisation large, employees will tend to be given more information than where organisations are small or have simple pay systems. This is often because larger organisations use computerised payroll systems.
- 5 Most of the payroll service companies, which offer organisations a complete payroll service, will provide

a breakdown of gross pay according to the requirements of the client, and all the computerised payroll systems allow for the inclusion of multiple components. Even printed pay slips available over the counter from stationers include space to include such items as overtime, bonuses, sick pay and holiday pay.

- 6 As part of our work we collected a large number of sample pay slips from organisations. These confirmed IPPM's view that employers already provide a great deal of information about the make-up of pay, and a breakdown of the composition of gross pay was easily accommodated within most existing payroll systems. We are aware that some small firms use very basic systems but, even here, we have examples of the pay slip providing details of the number of hours worked.

Worked Examples for Employers, Employees and their Advisers

- 7 We recommend that guidance for employers and employees include worked examples along the lines of those below. The examples are based on the National Minimum Wage at the recommended initial level for April 1999 (£3.60 per hour).

EXAMPLE 1

An employee is paid £3.60 per hour and is paid on a monthly basis. During the month the employee works 21 days at eight hours per day (168 hours). In addition, the employee works ten hours of overtime over the monthly pay period. The overtime rate is paid at time and a half.

Actual pay for the period is £658.80 total gross earnings. This is comprised of 168 hours x £3.60 (£604.80) plus 10 hours overtime x £5.40 per hour (£54.00) = £658.80.

The premium element (£1.80 per hour) of the overtime rate is not allowable against the National Minimum Wage (10 x £1.80 = £18.00 in total) so the assessable amount is £658.80 – £18.00 = £640.80. Hours to which the National Minimum Wage applies are 168 basic hours plus 10 overtime hours. Allowable earnings = £640.80 ÷ 178 = £3.60 per hour.

The employee has therefore been paid the National Minimum Wage for the pay period.

EXAMPLE 2

An employee is weekly paid on a piecework basis over a 40 hour week. Over the week the employee works six hours of downtime paid at £3.00 per hour (£18.00) and 34 hours at varying amounts averaging £3.50 per hour. The total pay received over the pay period is £137.00.

Hours to which the National Minimum Wage applies are 40. Hourly rate = $£137.00 \div 40 = £3.425$.

The employee has therefore not been paid the National Minimum Wage for the pay period and the total pay must be increased by £0.175 per hour (£7 for the week) to meet the National Minimum Wage requirement.

EXAMPLE 3

An employee is paid weekly and the total earnings are made up of 35 hours at the basic rate (£3.40 per hour) and five hours of overtime paid at the basic rate plus an additional 85p an hour premium (overtime rate £4.25 per hour). In addition the employee receives a shift premium of 20% for working unsocial hours and also receives a weekly productivity bonus which varies from week to week.

The actual pay for the period is £179.05 total gross earnings. This is comprised as follows: 35 hours at £3.40 per hour = £119 plus five hours of overtime ($£4.25 \times 5 = £21.25$) = £140.25 plus 20% shift premia (£23.80) for all basic hours worked = £164.05 plus £15 productivity bonus = £179.05.

The premium element (85p per hour) of the overtime rate is not allowable ($5 \times 85p = £4.25$ in total) nor are the shift premia (£23.80). So allowable earnings are $£179.05 - £28.05$ ($£4.25 + £23.80$) = £151.

Hours to which the National Minimum Wage applies are 35 basic hours plus 5 overtime hours. Allowable earnings are $£151 \div 40 = £3.775$ per hour. The employee has therefore been paid the National Minimum Wage for the pay period.

Example of Model Pay Slip

The Commission does not believe that the Government should stipulate a particular format for pay slips. But some kind of best practice guidance along the lines of the example below might be useful.

ACME SERVICES LTD				PLEASE KEEP THIS PAY ADVISE IN A SAFE PLACE. IT MAY BE REQUIRED FOR THE PURPOSE OF SELF-ASSESSMENT		
EMPLOYEE NAME				Payslip No.	Pay-roll.	Employee Ref.
PAY AND ALLOWANCES				PAY AND DEDUCTIONS		
DESCRIPTION	HOURS	RATE	AMOUNT	DEDUCTIONS	TO DATE TOTALS	
				(R=refund)		
				PAYE TAX:	EARNINGS	TAXABLE PAY:
				NI:	TAXABLE PAY	NON TAXABLE PAY:
				COMPANY PENSION:	TAX	DEDUCTIONS:
				OTHER:	NI	
					COMPANY PENSION	
					OTHER	
TOTAL GROSS PAY:				TOTAL DEDUCTIONS:		NET PAY:
THE NATIONAL MINIMUM WAGE, WHICH YOUR EMPLOYER MUST PAY YOU BY LAW, IS £3.60 PER HOUR. YOU SHOULD SEEK ADVICE IF YOU ARE UNSURE THAT YOU ARE RECEIVING THIS RATE.				DATE:		Bank details:
				PAYMENT PERIOD:		
				TAX PERIOD:		
				TAX CODE:		
				NI NUMBER:		
				PAY METHOD:		

Abbreviations

ACAS	Advisory, Conciliation and Arbitration Service	HEA	Hairdressing Employers Association
AEEU	Amalgamated Engineering and Electrical Union	HMT	Her Majesty's Treasury
AEI	Average Earnings Index	HMG	Her Majesty's Government
APA	Additional Personal Allowance	HMSO	Her Majesty's Stationery Office
AWB	Agricultural Wages Board	IDS	Incomes Data Services Ltd.
BHA	British Hospitality Association	IEA	Institute for Economic Affairs
BHPS	British Household Panel Survey	IES	Institute for Employment Studies
BPA	Blind Person's Allowance	IFS	Institute of Fiscal Studies
BRC	British Retail Consortium	IFTC	Independent Family Tax Credit
BSA	Business Services Association	iiYP	Investing in Young People
CAB	Citizens Advice Bureau	ILO	International Labour Organisation
CAC	Central Arbitration Committee	IMF	International Monetary Fund
CBI	Confederation of British Industry	IoD	Institute of Directors
CCTE	Chambers of Commerce, Training and Enterprise	IPD	Institute of Personnel and Development
CEP	Centre for Economic Performance, London School of Economics	IPM	Institute of Personnel Management
CIR	Commission on Industrial Relations	IPPM	Institute of Payroll and Pensions Management
CTB	Council Tax Benefit	IRS	Industrial Relations Services
DEP	Department of Employment and Productivity	IT	Industrial Tribunal
DfEE	Department for Education and Employment	LEC	Local Enterprise Company
DPTC	Disabled Persons Tax Credit	LEL	Lower Earnings Limit
DSS	Department of Social Security	LFS	Labour Force Survey
DTI	Department of Trade and Industry	LGA	Local Government Association
DWA	Disability Working Allowance	LGMB	Local Government Management Board
EC	European Community	LPC	Low Pay Commission
EEC	European Economic Community	LPU	Low Pay Unit
EEF	Engineering Employers' Federation	LSE	London School of Economics
EOC	Equal Opportunities Commission	MCA	Married Couple's Allowance
EPA	Equal Pay Act	MEL	Minimum Earnings Level
ESRC	Economic and Social Research Council	MP	Member of Parliament
EU	European Union	MPC	Monetary Policy Committee
FES	Family Expenditure Survey	MW	Minimum Wage
FSB	Federation of Small Businesses	NBER	National Bureau of Economic Research
FWR	Fair Wages Resolution	NBPI	National Board for Prices and Incomes
GDP	Gross Domestic Product	NCVO	National Council for Voluntary Organisations
GES	General Earnings Survey	NES	New Earnings Survey
GHS	General Household Survey	NHF	National Hairdressers' Federation
GNP	Gross National Product	NHS	National Health Service
HB	Housing Benefit	NI	National Insurance
		NI	Northern Ireland
		NICs	National Insurance Contributions

NIESR	National Institute for Economic and Social Research
NMW	National Minimum Wage
NVQ	National Vocational Qualification
NWC	Singapore Minimum Wage
OECD	Organisation for Economic Co-operation and Development
OFSTED	Office for Standards in Education
ONS	Office for National Statistics
PAYE	Pay As You Earn
PBR	Payment By Results
PPP	Purchasing Power Parity
PRP	Profit Related Pay
PSBR	Public Sector Borrowing Requirement
RH	Right Hand
RPI	Retail Price Index
RPIX	RPI minus mortgage interest payments
SBRC	Small Business Research Centre
SCVO	Scottish Council for Voluntary Organisations
SERPS	State Earnings-Related Pension Scheme
SIC	Standard Industrial Classification
SJIC	Statutory Joint Industrial Council
SME	Small and Medium-Sized Enterprise
SMIC	Salaire Minimum Interprofessionel de Croissance (French Minimum Wage)
SMP	Statutory Maternity Pay
SMW	Statutory Minimum Wage
SSP	Statutory Sick Pay
SVQ	Scottish Vocational Qualification
TECs	Training and Enterprise Councils
TGWU	Transport and General Workers' Union
TUC	Trades Union Congress
US/USA	United States of America
USDAW	Union of Shop, Distributive and Allied Workers
VAT	Value Added Tax
WBA	Widow's Bereavement Allowance
WFTC	Working Families Tax Credit

Glossary

Annualised hours contract	A form of employment contract which specifies the number of hours to be worked over the course of the year, without specifying when those hours are to be worked within the year. Often used to cope with seasonal peaks and troughs in workloads.
Cohort	A collection of individuals banded or grouped together. Cohorts are used in longitudinal analyses to address dynamic issues such as the labour market experiences of the low paid over time.
Collective wage agreement/collective bargaining	Agreement negotiated between employer(s) and trade union(s) which governs pay and/or conditions or minimum standards. Even though an employee may have more favourable terms and conditions than those in an agreement, or may be employed by an employer who is not a member of an association which is a party to the agreement, the employee's pay and/or conditions of employment may nevertheless be affected by the agreement.
Contracted-out/Out-sourced work	Work which is undertaken on behalf of a business by another party under contract.
Cross-sectional analyses	Statistical analysis using data which comes from one point in time (see also longitudinal analysis).
Decile earnings	
..... Lowest	The deciles of a distribution divide it into tenths. The lowest decile covers the 10 per cent with the lowest earnings, i.e. where 90 per cent of people earn more.
..... Highest	The highest decile are those with the highest 10 per cent of earnings i.e. the amount at which 90 per cent of the employees have earnings below this level.
Econometric analyses	The application of mathematical and statistical methods in order to test the validity of economic theories and to make quantitative predictions.
Grossing factors	Factors by which numbers in a sample should be multiplied to obtain approximate estimates of the corresponding numbers for the population as a whole.
In-work benefits	Social security benefits available to workers and their families on the grounds of low income. The main in-work benefits are Family Credit for workers with dependent children and Disability Working Allowance for disabled workers. Workers on low incomes may also be able to receive Housing Benefit and Council Tax Benefit, which provide help with the cost of rented accommodation and Council Tax charges, respectively. All these benefits are income-related.
Labour force/workforce	The part of the population that is either in work or available for work.
Labour market	A market where individuals offer their labour in exchange for remuneration.
Longitudinal analyses	Statistical analysis of data which covers more than one point in time.
Macroeconomics	The study of the economy as a whole, and the relationship between broad economic aggregates such as national income and savings.
Marginal product (of labour)	The extra amount of output gained by adding one extra worker, while holding all other inputs constant.
Median	A form of average derived by ranking all the data in an ascending order. After ranking the data in this form, the median is defined as the middle number in the series.
Microeconomics	The study of individual 'decision units' (i.e. people and firms) and their decisions about particular commodities.
Monetary policy	The control of the money supply and/or interest rates to effect employment or inflation outcomes.

Monetary Policy Committee (MPC)	The panel of experts and senior Bank of England members who meet monthly to set interest rates to meet the inflation target.
Monopsony	Employer dominance which leads to workers being paid less than their marginal product.
Out-of-work benefits	Social security benefits available to people who are not in work, or who work less than 16 hours per week. The main out-of-work benefits are: Jobseeker's Allowance for people who are unemployed, available for, and seeking, work; and Income Support for people who are not required to make themselves available for work, e.g. lone parents or people with incapacities. In addition, for people out of work and on low incomes, Housing Benefit and Council Tax Benefit provide help with the cost of rented accommodation and Council Tax charges.
Own wage	The 'own wage' effect is the average percentage rise in gross pay an individual earning below the National Minimum Wage receives when his or her wage is brought up to that level.
Public Sector Borrowing Requirement (PSBR)	The budget deficit of central government, as measured by the difference between government revenue and expenditure.
Product market	A market where goods and services are bought and sold.
Purchasing Power Parity (PPP)	Hypothetical rates of currency conversion that eliminate the differences in price levels between countries. For example, a PPP exchange rate would set the price of a loaf of bread to the same price in both countries.
Retail Price Index	A monthly measure of prices. It is based on a basket of goods and services consumed by the average household (ranging from food to housing costs and entertainment). It is used to measure the monthly changes in the cost of living by measuring the amount of money required to purchase this typical basket of goods.
Standard Industrial Classification (SIC)	<p>The UK system of classification of economic activities for establishments and businesses for purposes of official statistics. Originally published in 1948 and subsequently revised. In 1995 the new revision SIC (92) was used for the first time.</p> <p>SIC (92) was developed to reflect the emergence of new industries and products to comply with the introduction of a new statistical classification of economic activities in the European Communities. It consists of a hierarchical five-digit system divided into 17 sections, 14 sub-sections, 60 divisions, 222 groups, 503 classes and 142 subclasses.</p>
Standard Occupational Classification (SOC)	A hierarchical classification system comprising 374 Unit Groups, arranged within 77 minor, 22 Sub-major and 9 Major Groups, developed by the former Employment Department Group and the former Office of Population Censuses and Surveys to replace the various classifications used by government departments.
Travel-to-work areas	An approximation to a self-contained labour market where the majority of the people in the area both live and work in it. They are defined using local authority wards and travel patterns derived from the 1991 Census of Population.
'Tronc'	A system of centrally controlling tips and other gratuities commonly used in the hospitality industry. Tips and gratuities are passed to a 'tronc master' who is responsible for allocating them to individual workers after making any appropriate deductions (e.g. for income tax).
Zero hours contracts	A contract under which workers are not guaranteed any particular hours of work, but have to be available when the employer needs them. They are only paid for the hours actually worked, not those 'on call'.

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