



## **Mutual Learning Programme Peer Review on 'Minimum Wage' 7-8 April 2014, London**

### ***Executive Summary***

**The Peer Review focused on the introduction and the implementation of the National Minimum Wage (NMW) in the UK.**

The event was hosted by the UK Department for Business, Innovation and Skills and the UK Low Pay Commission. It brought together Ministry officials and independent experts from Belgium, Germany, Greece, Ireland, Italy, Latvia, the Netherlands and Norway, as well as representatives of the European Commission, Eurofound and the ILO.

**The starting point for the discussions in the Peer Review was a presentation of the UK's experience of introducing a NMW.** When the NMW was introduced in 1999, it provoked controversy and predictions of dire economic consequences. However, none occurred, and the NMW quickly gained popular and political acceptance, such that it now has unchallenged approval.

The UK experience needs to be set in the context of a decline in collective bargaining and in trade union membership from the 1980s onwards, alongside significant economic growth from 1994 to 2008. The shortcomings of standard price models of wages have been clear in the UK context, in which it has been useful to acknowledge that workers are in general as productive as their employers permit and that workers tend to be more sensitive to relative than to absolute pay levels. Furthermore, pay comparisons are strongest at a local level and small employers can benefit from externally legitimised pay norms. The UK approach to the NMW is characterised by a focus on what employers can pay without job loss, rather than on what employees need.

Several difficulties are apparent from the UK's experience of implementing the NMW: there is a challenge in obtaining reliable pay data; a NMW can discriminate against younger workers and workers marginal to the labour market; and compliance with a NMW may be more challenging in weaker economic conditions.

From the UK's experience, several factors for successful implementation of a NMW emerge:

- the need for a strong legal framework, backed up by strong enforcement;
- widespread consultation on the NMW proposals, amongst the social partner stakeholders;
- setting the NMW at a 'cautious' level initially, with subsequent increases, and ensuring that the NMW is as simple as possible;
- taking an evidence-based approach to setting the NMW, drawing on a wide research base; and
- the value of an independent body (in the UK, the Low Pay Commission) in researching, recommending to government, and negotiating consensus, on the level of the NMW.

**The key policy messages from the Peer Review are as follows:**

- *It is essential, in considering **implementation of a NMW and determining its level**, to take account of the context within any given country. Thus, how transferable the success factors will be from the UK to other countries, depends very much on the context of wage-setting, collective bargaining and political aspects.*
- *Furthermore, it is important to understand the **specific objectives of a NMW**. It is unhelpful to regard the NMW as a goal in itself; rather it should be seen as a tool to achieve other objectives. In some countries, the NMW is set to ensure a 'living' wage. As noted earlier, this is not the case in the UK, where the NMW is set to act a wage floor to prevent exploitation of low-paid workers. Other policy measures (in particular, the benefits system) can be used to support living incomes.*
- *There are various **mechanisms for implementing and operating a NMW**: as noted earlier, in the UK there is an independent body with a role to advise government; other countries rely upon collective bargaining (with negotiation between social partners) to reach agreement on minimum wage levels; and, in some countries, the NMW is set by government with some form of consultation with social partners. The UK approach has limited transferability, since it is unlikely to be appropriate within a tradition of widespread collective bargaining. However, the evidence-based approach used in the UK is of interest in other countries and is transferable.*
- ***Annual (or other, periodic) review of the NMW** level can be based on a formula (e.g. in line with cost of living changes, or in line with wages, etc.) or – as is the case in the UK – can be a qualitative judgement using a range of data and analyses. The non-formula approach relies upon a consensual agreement; in the UK, this is achieved by acceptance of the role and independence of the Low Pay Commission.*
- *With regard to **compliance with a NMW**, it is important to acknowledge the difficulty of measuring the effective paid rate for employment (taking into account non-payment of hours worked, for example). The simplicity of the UK NMW facilitates compliance and aids its enforcement.*
- *There is great variation between countries with regard to **enforcement of the NMW**. Some countries carry out systematic reviews to detect non-compliance with the NMW by employers. In other countries, there is greater reliance upon individual employees to enforce their entitlement to the NMW. In all cases, it is clear that proactive enforcement and provision of information on rights and obligations are very important.*
- ***The impact of the NMW** is well-understood in the UK context. Impact is usually measured in terms of employment effects, including wage/non-wage costs, working hours and wage compression. An important aspect is how to set the NMW to avoid wage compression to a level just above the NMW.*