

A National Minimum Wage - The UK's Experience Part 1: Process

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Overview

- **Process**

- **The National Minimum Wage**

- What is it?
 - Who is entitled? Who is exempt?
 - How is it set?

- **The Low Pay Commission**

- What is it? Who is on it?
 - What does it do?

- **Conclusion**

National Minimum Wage

- **National Minimum Wage Act 1998**
 - NMW introduced in **April 1999**
- It is a **WAGE FLOOR** NOT A **‘LIVING WAGE’**
- It is **NATIONAL** (the same across the UK)
- It is **HOURLY**
- It is **CASH** (benefits-in-kind apart from accommodation do not count)
- It is **SIMPLE** (just four rates)
- It only varies by **AGE** (and apprenticeship)
- It is **COMPREHENSIVE** – it covers nearly all workers and types of contract, with few exemptions

Low Pay Commission

- **Set up in 1997** to define the National Minimum Wage and recommend its introductory level.
- **No specific aim/objective** under the NMW Act 1998, but given specific **remit by Government each year**
- **Independent of Government**
- **Social Partnership**
 - 9 Commissioners
 - Balance - 3 independents, 3 with employer experience and 3 with union experience
 - Appointed as individuals (**NOT MANDATED**)
 - One Commissioner One Vote
- Small secretariat (Analysis, Policy and Admin)

Our Aim

- "Our aim is a minimum wage that helps as many low-paid workers as possible without any significant adverse impact on employment or the economy. The advice we offer Government in pursuit of this aim will be based on the best available evidence."

(Agreed at LPC meeting on 25 May 2011, and noted by the Government as our aim in its evidence to us)

What is the Process for Setting the NMW?

- **Government sets remit for LPC (April–June)**
 - monitor and assess impact of the minimum wage
 - make recommendations for future rates
 - review specific issues (e.g. apprentices, young people)
- **LPC makes its recommendations in an annual report (end February)**
 - constructive spirit of problem solving
 - debate guided by the evidence
- **Government decides to ACCEPT or REJECT (March)**
 - Government must lay down reasons in Parliament for rejection of any recommendations
 - Minimum wage changes must be passed in both houses
- **NMW changes come into effect (1 October)**

Example Remit (for the 2014 Report)

“The Government’s aim is to have NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects.

Specifically, the Low Pay Commission is asked to:-

- 1. Monitor, evaluate and review the levels of each of the different NMW rates and make recommendations on the levels it believes should apply from October 2014.**
- 2. Review the contribution the NMW could make to the employment prospects of young people.**

In making recommendations in the areas set out above, the Low Pay Commission is asked to take account of the state of the economy, and employment and unemployment levels.”

Recommending the Rate

- **Evidence-based judgement not a formula**
 - The impact so far
 - State of the economy
 - Prospects for the economy
 - Stakeholder views
 - Impact of other Government legislation
- **Evidence gathering**
 - In-house analysis
 - Commissioned and independent research
 - Formal consultation (Written and Oral evidence)
 - Visits around the UK
 - Secretariat meetings with stakeholders
 - International developments

Finding the Right Level

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

The Economist (5 June 1997)

Compliance and Enforcement

- Enforcement by HM Revenue & Customs (HMRC)
 - as the UK tax collector, HMRC is a credible enforcer
 - Pay and Work Rights Helpline (all NMW complaints are investigated)
 - targeted enforcement (using risk assessment and targeted sectors)
- Employer belief in enforcement is crucial to success of NMW
- The confidence of workers, unions and the general public, in the enforcement process is also essential.
- Compliance
 - reasonably comprehensive but not complete

Conclusion

- The Low Pay Commission viewed as successful
 - In 2010, it was voted most successful policy in last 30 years by members of the Political Studies Association
 - Evidence-based decision making
 - Widespread consultation
 - Independence from Government
 - Social partnership (all reports/recommendations have been unanimous)
 - Deliberations over the rate are secret – no minutes produced
 - Accepted by the change of Government
 - Coped with the difficulties of the recession

No single golden road to success

- The UK system works in the UK
- A similar system may not be as successful in other economies
- When considering design and implementation of a minimum wage system, a country's culture and traditions must be taken into account
- You also need to be clear what the aim of the minimum wage is