

Mutual Learning Programme Database of National Labour Market Practices

United Kingdom - National Minimum Wage (NMW)

This database gathers practices in the field of employment submitted by European countries for the purposes of mutual learning. These practices have proven to be successful in the country concerned, according to its national administration. The European Commission does not have a position on the policies or measures mentioned in the database.

Source of national practice	Peer Review on Minimum Wage, London, United Kingdom, 7-8 April 2014
Title of the policy or measure (Original language)	National Minimum Wage (NMW)
Title of the policy or measure (English)	National Minimum Wage (NMW)
Country	United Kingdom
Name of the responsible body	Department of Business, Energy and Industrial Strategy (Department of Business, Innovation and Skills (BIS) until August 2016 and formerly the Department of Trade and Industry (DTI))
Geographical scope of the responsible body	National
Name(s) of other organisations involved (partners/sub-contractors)	Her Majesty's Revenue and Customs (HMRC) is responsible for enforcement
Start year of implementation	1999
End year of implementation	Ongoing
EU policy relevance	Encouraging decent and sustainable wages. Statutory minimum wages are not a direct requirement of the European Employment Strategy but are a right of employment supportive of the parts of the employment package aimed at encouraging decent and sustainable wages, and at reducing labour market segmentation between precarious and more stable employment. They also support job creation by transforming informal and undeclared work into regular employment, and by boosting take-home pay.

National labour market context	<p>The policy was implemented at a time when the pay of the lower paid was deteriorating relative to median earnings but the level of demand was rising. Ten years later the economy was to suffer a severe recession from which it is still currently recovering.</p> <p>The period leading up to the establishment, in 1997, of the Low Pay Commission (LPC) had been one of increasing income inequality. This resulted from, first, declining trade union membership, especially in the private sector. Second had been the abolition, in 1993, of statutory bodies which had fixed minimum wages for selected low-paying sectors. A third factor was the deterioration of relative wages of less skilled workers arising both from the expansion of the global trading economy and from technological change.</p> <p>A growing problem was the cost to the government of the financial benefits paid to working parents to mitigate the effects of family poverty. With no statutory minimum wage, there was an unintended incentive for employers to minimise their wage costs by encouraging employees to maximise their in-work benefits.</p> <p>In the mid-1990s the British economy had entered a period of low inflation, low unemployment, and sustained economic growth which was to continue until the financial crisis of 2008. The larger of those sectors most affected by the NMW – retail, hospitality, business services, and care homes – all benefited from this sustained growth. Unemployment was close to 5 per cent in 1999, rose sharply to 8 per cent in 2008, falling back between 2013 and 2015 to 5 per cent.</p>
Policy area	<p>Gender equality, Labour market functioning and segmentation, Prevention of poverty through inclusive labour markets, Wage-setting mechanisms and labour cost developments</p>
Specific policy or labour market problem being addressed	<p>The position of the low paid had been deteriorating since the late 1970s. This was increasing the proportion of children who were growing up in extreme poverty and increasing the cost to the state of providing in-work benefits to needy families.</p> <p>Income inequality was increasing generally over the preceding 20 years. Between 1978 and 1998 the increase in real hourly earnings of the lowest decile was 29 per cent while that of the highest decile was 66 per cent. This was substantially greater divergence than elsewhere in the EU. It particularly affected the wages of women. The proportion of children in households with an income less than 50 per cent of mean income rose from 10 per cent to 30 per cent between 1980 and 1999. The cost to the state of providing in-work benefits to families rose from £200m to £2,100m between 1988 and 1997 and was continuing to rise.</p> <p>There was a perverse incentive that encouraged low-paying employers to get their employees to maximise their benefit claims. The state was, in effect, subsidising low-paying employers and thereby both amplifying the downward pressure on wages and undermining what collective bargaining was still in place in the private sector.</p>

Aims and objectives of the policy or measure	<p>The aim of the policy was to place a floor under wages that could be enforced by law but would not increase unemployment or inflation.</p> <p>The objectives were:</p> <ul style="list-style-type: none"> • to produce a definition of minimum wages that would apply to all sectors, and would be enforceable in law; • to fix the minimum wage at a level where it would make a substantial difference to the low paid but not increase unemployment or inflation; • to do it in a way that was seen to be transparent and politically independent of government; and • to ensure that the NMW would be widely understood and effectively enforced.
Main activities/actions underpinning the policy or measure	<p>The policy required the establishment of the Low Pay Commission to advise the government on the NMW and an enforcement body. The Low Pay Commission established its integrity and independence of government by:</p> <ul style="list-style-type: none"> • having a ‘social partnership’ constitution of nine non-salaried members of whom three had a trade union background, three an employer background, and three were independents, of whom one was Chair; • gathering evidence by both formal hearings and regular field trips to interview low payers and low paid in all economic regions; • establishing a programme of research into the circumstances of low pay and the impact of the NMW, both by its own work and by the commissioning of work by academic and other experts; and • encouraging the government statistics authority to improve the measurement of wages. <p>The enforcement of the NMW was made effective by:</p> <ul style="list-style-type: none"> • being made the responsibility of Her Majesty’s Revenue and Customs inspection system • being subject to comprehensive legal definitions and penalties • extensive publicity and education
Geographical scope of policy or measure	<p>National</p>
Target groups	<p>Disabled people, Low-skilled people, Women, Young people (aged 16 to 25 years)</p>

Outputs and outcomes of the policy or measure

The NMW had a substantial initial and continuing impact on the wages of the lower paid without any significant adverse consequences for employment or inflation.

The initial coverage of the NMW was about 1 million employees directly affected, about 4-5 per cent of all employees, with the NMW coming in at a 'bite' of 46 per cent of median earnings. Over the first five years after its introduction annual earnings increases of the bottom 10 per cent averaged over 2 per cent more than at the median. Coverage later increased as NMW increases were generally greater than average earnings increases. Indeed, such increases were a deliberate policy until the onset of recession. By 2015, the bite had risen to 54 per cent of median earnings, directly affecting around 1.6 million employees. The NMW had now become a major determinant of wages, reported in the 2011 Work and Employment Relations Survey to be an influence by 31 per cent of private sector employers.

The NMW had very limited 'knock-on' effects higher up the overall income distribution beyond the tenth decile, although such effects were greater in low-paying sectors. It had a substantial impact in narrowing the gender pay differential: the gender pay gap at the tenth decile fell from 13 per cent in 1998 to less than 6 per cent in 2014.

By 2014 there had been no evidence that the NMW had any adverse effects on employment or inflation. There was no evidence, despite extensive research, of any adverse effects on any vulnerable groups, sectors or regions. The share in total employment of major affected sectors increased. Workforce participation increased, and the workforce increased by 2 million between 1998 and 2014. The low-paying sectors (that is, those most affected by the NMW) were more resilient in the recession and its aftermath from 2008 to 2014 than other sectors.

In general terms the enforcement arrangements appear to have been effective. The government has more recently encouraged the use of 'naming and shaming' of firms breaching the NMW regulations.

Responses by firms included some initial price increases, but no continuing price effects, some reductions in hours of employment, slightly lower profits in some sectors, and slight positive effects on training provision. Although impossible to prove, it is likely that the minimum wage has helped to mitigate any adverse impact of the large increase in immigration after 2004 on the wages and employability of the indigenous labour force.

**Management and
implementation
arrangements**

The LPC is given broad terms of reference every year and produces an annual report in which it reports on its research findings and makes a recommendation for the NMW in the next year. The government has in all significant respects accepted the recommendations.

Until 2015, the LPC had considerable scope to investigate and research into matters relating to the effectiveness of the NMW. It was expected to produce a recommendation as to its future level in January that would be applicable from October. Its recommendations were, apart from occasional minor details, accepted. In 2015 the Chancellor of the Exchequer announced that he was going to fix a new rate, applicable to adults aged 25 and over, to be called the National Living Wage (NLW). He stated the ambition that the bite of the NLW should have a target of 60 per cent by 2020. The LPC continues to fix the NMW for workers under 25 but has had to shift the date of implementation to April to synchronise with the NLW. This new arrangement provides a challenge to the operational freedom of the LPC.

Key challenges

- Reaching agreement on the LPC. In practice this was only difficult on the substantive issue of the recommended rate for the NMW each year. Each time agreement was reached through a fairly formal negotiation over two days. Most other items relevant to the NMW were resolved less formally by discussion and research. The main exception was the NMW rate for young people, on which agreement was reached only after extensive discussion and research
- Persuading government that the LPC recommendations were acceptable. This depended upon adopting a prudent approach and supporting advice with high quality data and research.
- Ensuring that the LPC was not damaged by political pressures. Considerable efforts were devoted to maintaining confidentiality, upholding rigorous research, being seen to listen to all views, and avoiding involvement in controversy around times of elections and changes of government.
- Obtaining reliable pay data on which to base recommendations. This required the LPC to persuade the Office for National Statistical to restructure the technical basis of its annual employer-based pay survey.
- Making the NMW applicable to fringe employment. This concerned homeworkers, undocumented immigrants, pieceworkers, interns, agency workers, family employees, therapeutic workers and other unconventional forms of employment. The LPC carried out extensive field research and interviewing to make definitions appropriate and enforcement as effective as possible.
- Ensuring that the NMW survived the severe recession of 2008-2013. Research into experience of the low paid in previous recessions was helpful. The onset of the recession was met by more cautious NMW recommendations which broadly matched average wage increases but fell short of price increases. As a result, although the NMW lost value in real terms, its 'bite' as a percentage of median earnings was increased.
- Protecting the NMW from the intervention of the government with the creation of the NLW in 2015. It remains to be seen whether the LPC will be able to uphold their independence of action, and whether the NMW will retain the credibility and benefits of being seen to be free from government influence.

<p>Key conditions for success</p>	<ul style="list-style-type: none"> • The NMW was fortunate in its macroeconomic timing with regard to economic cycles. Its first eight years were blessed with a period of sustained economic growth and low levels of unemployment. • The strong legal framework provided by the 1998 National Minimum Wage Act was important in terms of the definitions it used of eligible workers and the sanctions it provided against non-payment of the NMW. It has been constantly refreshed and strengthened in the light of the LPC's research and advice. • Her Majesty's Revenue and Customs provided a very experienced and respected institution for effective enforcement. It used both proactive investigations and also anonymous help and complaint channels with users. • The LPC's cautious initial approach proved important in winning the trust of employers before the bite of the NMW was gradually increased. This was especially important in the light of what turned out to be very inadequate wage survey data. • The LPC's widespread formal and informal consultation was important in winning support of sceptics and in understanding the nature of their objections. It was especially important that the LPC has always travelled around the country to discuss problems in situ. • The LPC has always used the best available researchers for its commissioned research. This was essential in earning the respect of the Treasury officials and of informed academic commentators. Much of the commissioned research was of sufficient academic rigour to be published in leading international journals. • The use of a 'social partnership' model for the LPC was crucial in sustaining its independence of government and its respect in public opinion. This respect has been maintained despite routine turnover of Commissioners. However, the Chancellor's introduction of the NLW may alter the perceptions of the LPC's independence.
<p>Method of assessment</p>	<p>Internal evaluation, External evaluation</p>
<p>Type of assessment</p>	<p>Qualitative and quantitative assessment</p>
<p>Duration and frequency of the assessment</p>	<ul style="list-style-type: none"> • The NMW has been subject to annual assessment by the LPC. • Both commissioned and wholly independent research has been carried out on the NMW and its impact throughout the fifteen years of its existence.

<p>Further information on the assessment</p>	<p>There is now a large literature of several hundred publications on the assessment of different aspects of the impact of the NMW and the work of the LPC. The most immediate source is through bibliographies of the Reports of the LPC: https://www.gov.uk/government/organisations/low-pay-commission/about Some representative publications are: Low Pay Commission 2016, 'National Minimum Wage: Low Pay Commission Report Spring 2016', Cm 9207, OGL Butcher, T. 2012, 'Still evidence-based? The role of policy evaluation in recession and beyond: the case of the National Minimum Wage', National Institute Economic Review, 219 Butcher, T. Dickens, R. and Manning, A. 2012, 'The impact of the National Minimum Wage on the wage distribution', Low Pay Commission; University of Sussex; London School of Economics Metcalf, D. 2008, 'Why has the British National Minimum Wage had little or no impact on employment?', British Journal of Industrial Relations, 50 (3) Manning, A. 2012, 'Minimum wage: maximum impact', Resolution Foundation Brown, W. 2009, 'The process of fixing the British National Minimum Wage 1997-2007', British Journal of Industrial Relations, 47 (2) Draca, M., S. Machin and J. Van Reenen, 2011. Minimum Wages and Firm Profitability. <i>American Economic Journal: Applied Economics</i>. 3(1): 129-151</p>
<p>Links to the website, background information and assessment material</p>	<p>The main access point for material on the Low Pay Commission and its work is: https://www.gov.uk/government/organisations/low-pay-commission/about</p>
<p>Contact details</p>	<p>The Chief Economist of the Low Pay Commission is Tim Butcher: Tim.Butcher@lowpay.gov.uk The Secretary of the Low Pay Commission is Simon Blake: simon.blake@lowpay.gov.uk</p>
<p>Keywords</p>	<p>Minimum wage; low pay; minimum labour standard; social partnership; statutory wage regulation</p>