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Addressing low-wage work during the recovery: How can the minimum wage and collective bargaining help modernise pay practices?

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Summary

This briefing draws on research by Professors Damian Grimshaw and Jill Rubery with funding from the European Commission and the International Labour Organisation.

Current policy debates recognise that more needs to be done to reduce the persistent high share of workers in the UK who are employed in low-wage jobs.

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Summary continued

The discussion centres on the role of the statutory minimum wage; earlier this year Chancellor George Osborne called for an 11% rise to £7, the Labour Party said in May it will require the Low Pay Commission (LPC) to raise the level relative to median earnings, and the Resolution Foundation has published recommendations for a widened remit for the LPC. While welcome, these interventions do not go far enough as they rely too heavily on the statutory national minimum wage as a single policy instrument to address low pay. The minimum wage is first and foremost an instrument to eliminate exploitative pay; the evidence suggests it has been very effective and women in part-time jobs have benefited most. However, 15 years after its introduction it has not contributed to reducing the share of low-wage workers: relative to median pay the minimum wage has increased from 48% to 54% since 1999, yet the share of low-wage workers has remained flat at around 21–22%.

Already before the recession, more and more workers (men and women) were being paid at or just above the minimum wage, suggesting that employers responded to minimum wage rises by reducing pay differentials and using the minimum wage as 'the going rate' for the job. During the recession and initial recovery this pattern of response has continued. When combined with falling real wages, it adds up to a major problem of wage stagnation for a growing segment of workers.

A key challenge is for the modernisation of pay practices in low-wage sectors. Our research in contract cleaning, retail, security and social care shows that supervisory responsibilities are often rewarded with only a trivial pay rise, that completion of training typically goes unrewarded altogether and that work during unsocial hours is not compensated with higher pay. What can be done? Pay practices need to respond to low-wage workers' aspirations (especially the need for career, skill and pay progression), their needs for income security and their rights to compensation for undertaking difficult, dirty and unsocial hours work. A stronger role for trade unions in collective bargaining in low-wage sectors, combined with a commitment by employers and unions to tackle low pay, can rebuild routes towards fairer pay.

Introduction and background

There are good reasons to believe a statutory minimum wage can reduce wage inequality in contemporary labour markets. This argument is based on the long history of political economy research dating back to the Webbs' early 20th-century writings, through to contemporary empirical research and policy work by the International Labour Organisation and European Commission, among others. The theory and empirical evidence demonstrate that an effectively regulated minimum wage, pitched at a suitable level, improves the position of the lowest paid, reduces wage inequality and narrows the gender pay gap. Countries such as France and Belgium with high-value minimum wages (relative to average pay) tend to have a smaller share of low-wage employment compared with low-value minimum wage countries like the United States and Canada.

However, closer inspection of the international evidence reveals that the effects of minimum wages on pay inequality depend very much on the ways in which wages in general are fixed and regulated, including:

- whether wages are set by collective bargaining or by management;
- the attitudes of unions and employers towards minimum wage policy and low-wage work;
- the effectiveness of arrangements to ensure compliance with minimum wages.

In many sectors where unions are absent or very weak and employers' pay practices are unsophisticated, there is a high risk that minimum wages become the primary influence over wage setting. Studies in the United States argue that this phenomenon creates 'minimum wage job contours' (Rodgers et al., 2004), which are dysfunctional for workers, employers and the labour market.

The research

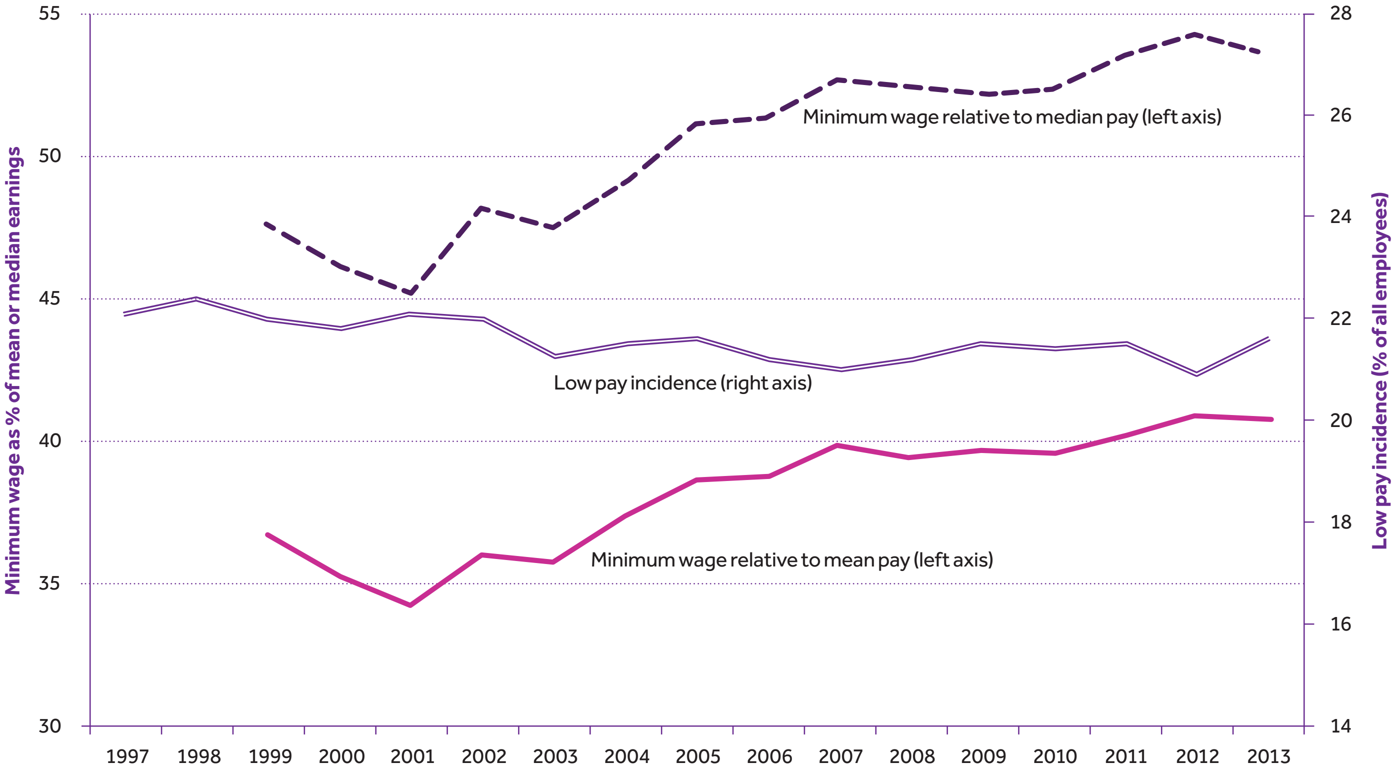
The introduction of a national minimum wage in the UK in 1999 provided a boost to pay at the bottom of the wage structure. The Low Pay Commission estimates some 1.2 million workers benefited from higher pay as a direct result of the new legislation, more than 70% of whom were women. This applied even though the minimum wage was introduced at a relatively low level. Since then this statutory wage floor has risen significantly. The most up-to-date earnings data, available for April 2013, shows that the minimum wage is now valued at 54% of median earnings, up from just 48% in 1999. This rise has benefited women more than men by a factor of around two to one due to women's over-representation in the lowest-paid jobs.

However, the rise in the minimum wage has not been steady or consistent (Figure 1) due to changes in policy over the fifteen-year period. Four main periods can be identified:

- *1999–2003: Fall and Correction* – the Low Pay Commission initially adopted a cautious approach but improved labour market data allowed some upward revision of the rate;
- *2003–2007: Purposive Upgrading* – the Low Pay Commission set an explicit goal of improving the position of the lowest paid by raising the relative value of the minimum wage;
- *2007–2010: Stagnation* – policy caution returned in the years around the economic recession;
- *2010–13: Accidental Upgrading* – the minimum wage rose relative to median earnings simply as a result of low rises in average earnings during the recession and austerity period.

So what has been the impact of this overall rise in the minimum wage on low pay? Figure 1 plots the trend in the share of employees that are low paid. Here we follow the international convention that defines low pay as gross hourly earnings that are less than two-thirds of median pay for all employees (see Grimshaw, 2011). On this basis the incidence of low pay has remained relatively flat over the 15-year period: the share of employees in low-wage work has hovered around 21–22%, seemingly impervious to the changing value of the national minimum wage.

Figure 1: Trends in the value of the minimum wage and the incidence of low-wage employment, 1997–2013



Source: Authors' compilation from Annual Survey of Hours and Earnings data, ONS

The research continued

How is this possible? One potential explanation is that the rising wage floor has been accompanied by a growing cluster of workers paid at or just above the minimum wage. If true, this would be in line with developments in the United States where in a growing number of jobs it is the minimum wage and not the worker's education, skill or experience which is primarily shaping developments in pay. These have been labelled 'minimum wage job contours'.

Table 1 reports the UK evidence for 1999–2012. It shows the share of workers paid at three defined minimum wage job contours: minimum wage plus 10%, minimum wage plus 20%, and minimum wage plus 30%. Three key results follow:

– in both the pre-crisis (2003–2008) and post-crisis (2008–2012) periods there is a growing concentration of men and women in all three minimum wage job contours;

– minimum wage job contours are even stronger for women than for men: in 2012, 15% of female employees and 8% of male employees were paid at the first minimum wage job contour (equivalent to £6.08–£6.69) and almost a third of female employees and one fifth of male employees were paid at the third minimum wage job contour (£6.08–£7.90);

– the gender divide has diminished since 2003: in 2003 women were around three times more likely than men to be found in the second minimum wage job contour but by 2012 this had reduced to less than twice as likely.

The increased share of workers concentrated in minimum wage job contours presents a critical policy challenge. **It demonstrates that a statutory minimum wage is necessary but not sufficient to address the problem of low pay.** Our comparative research with other European countries suggests the situation can be different, but there needs to be a constructive institutional space in which trade unions and employers are able to work together (Grimshaw, 2013). Under certain conditions, trade unions and employers can negotiate collective pay deals that build on minimum wage rises by dispersing a 'long-reaching ripple effect' of pay rises up the pay hierarchy. Instead of a clustering of workers at the minimum wage, these types of pay deals spread the rise in the minimum wage further along the payscale and maintain pay differentials defined by skill, qualification and responsibility. Strong unions and strong enforcement of pay agreements are critical conditions for this to be achieved.

While such pay deals may be widespread in Belgium, France and Germany, the erosion of collective bargaining and weakness of unions (especially in low-wage sectors) in the UK presents a challenge: for example, only around 5% of workers in hospitality and 12% in retail are union members. There are nevertheless good examples in the UK of what we call 'baseline ripple effects', whereby unions agree with an employer to secure a wage premium over the minimum wage which prevents squeezing of differentials at the bottom minimum wage contour. This was true of successive Tesco–USDAW agreements in the 2000s, as well as the NHS Agenda for Change agreement first agreed in 2004. In both cases the aim was to open up a gap between the lowest pay rate and the minimum wage. This strategy may suit employers who wish to avoid acquiring a reputation as a minimum wage employer and may also fit with union objectives to raise the position of the very lowest paid. However, it does not address the problem of how to sustain existing pay differentials further up the payscale that provide an important route for many workers out of low pay.

Notes:
Earnings data refer to adult employees, full-time and part-time, gross hourly, overtime excluded; the minimum wage in April each year was £3.60 (1999), £4.20 (2003), £5.52 (2008), £6.08 (2012); job contour estimates refer to adults aged 22+ (1999–2008) and 21+ (2012).

Source:
ONS ASHE data – 'Distribution of low-paid jobs by 10p bands' and 'ASHE: Table 1 All employees'.

Table 1: Minimum wage job contours by gender, 1999–2012

	1999	2003	2008	2012
First MW job contour (MW + 10%)				
Women	11.9%	9.5%	12.7%	15.0%
Men	4.1%	3.2%	5.7%	8.4%
Second MW job contour (MW + 20%)				
Women	20.7%	16.7%	20.4%	23.2%
Men	7.6%	6.0%	9.7%	13.6%
Third MW job contour (MW + 30%)				
Women	27.7%	24.9%	26.4%	30.1%
Men	11.3%	10.0%	13.2%	18.4%
Minimum wage as % of median pay	47.6%	47.5%	52.4%	54.2%
Median pay as % of minimum wage	MW+110%	MW+111%	MW+91%	MW+84%
% women paid below median pay	61%	60%	58%	57%
% men paid below median pay	39%	40%	42%	43%

Conclusions and implications

The UK, in common with many other countries, relies upon a policy of statutory minimum wage rises as the main instrument to improve the position of the lowest paid. While the Low Pay Commission let the real value of the minimum wage slide during the recession and post-recession years, 2014 witnessed first steps towards restoring its real value and statements to the effect that the minimum wage ought to rise in forthcoming years provided it is matched with higher productivity (LPC, 2014). However, this only concerns the wage floor. **How can low-wage workers ensure their pay keeps ahead of the minimum wage?**

Too many UK employers act unilaterally and respond to minimum wage rises by squeezing pay differentials. Unilateral employer actions are unlikely to reflect the different social and economic interests of the workforce – not only their costs of living but also their aspirations for career, skill and pay progression. **The bottom line is that pay practices need to do more than simply comply with legislation. They need to be modernised, and trade unions can play an effective role.** Too many workers are low paid, generating a drag on productivity, a disincentive to upskilling and poor worker morale. An effective jobs recovery urgently requires the modernisation of pay policy and practice.

Further materials, links and references

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