

What next for a fair minimum wage?

ReWAGE Evidence Paper SUMMARY

Building on the UK's successful minimum wage policy to date, the accompanying ReWAGE Evidence Paper makes eight new recommendations for a fair minimum wage designed to improve its effectiveness and strengthen its role in underpinning a fair labour market that works for everyone.

There are two reasons for making these recommendations now. The first is that the current remit for the Low Pay Commission to raise the minimum wage up to two thirds of median earnings is likely to be met by April 2024. As such, we need to start debating what the new remit is likely to be. The second reason is that there is growing evidence that the minimum wage is not fully reflective of social norms of wage fairness. Because the labour market is as much a social as an economic institution, the argument of this Evidence Paper is that a revised remit for the Low Pay Commission needs to consider more explicitly the shaping role of fairness norms.

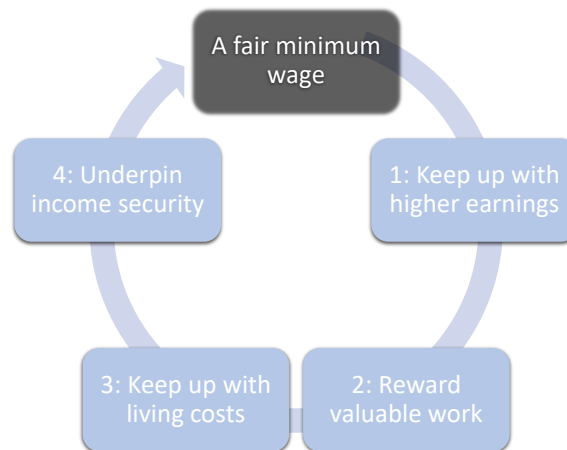
Why Fairness norms?

Fairness clearly has multiple dimensions, reflecting our diverse experiences relative to other workforce groups - defined by labour market status or by social divisions (e.g. gender) - and varied ideas about fair pay for level of skill, effort, living costs, and so on. For example, trade unions have historically campaigned for 'a fair day's work for a fair day's pay'. Women have won important wage gains by demanding 'equal pay for work of equal value'. And the Living Wage Foundation has argued on behalf of low-income households for a fair wage on the basis of what enables a family to meet everyday needs. These complex and varied fairness norms are fundamental forces shaping ideas and experiences about what constitutes a socially just labour market.

Fairness norms also interact with changing intellectual ideas and politics. When the UK national minimum wage was introduced in 1999, the then Labour government soon established a political consensus that it was needed to prevent exploitative wages. Since 2015, under successive Conservative governments, the rationale has been that the minimum wage ought to be a standard for pay equity, so that adult workers earn no less than two thirds of median earnings by 2024.

Four Fairness Norms and Eight Recommendations for a Fair Minimum Wage

To evaluate whether or not the UK minimum wage reflects progressive norms of fairness, this ReWAGE Evidence Paper identifies four types of fairness related to wage justice.



Fairness 1. The minimum wage should keep up with higher earnings

A sense of one's relative income position is fundamental to norms of fairness. The UK is characterised by a very high level of inequality of incomes between rich and poor. At the extreme top end, the average UK CEO earns the equivalent of the annual median salary within just three working days. Also, at a time when many workers' living standards are being squeezed, there is understandable disbelief about record sales of luxury goods, including second homes, yachts and champagne.

In setting the minimum wage target of two thirds of median earnings (by 2024), the government is sending a powerful signal about what it considers to be a fair level for minimum wage earners relative to middle earners. But does it go far enough?

- Why two thirds of median earnings rather than say 70 or 75 percent? The two thirds threshold is the international definition of low wage work, which gives the threshold a certain legitimacy. But how do we know this threshold fits with a perceived sense of justice in the UK? Surveys in the UK show that a majority favour a higher minimum wage.
- Instead of benchmarking the minimum wage against median earnings why not attend to a point higher up the wage distribution that reflects the experience of higher earners? The high share of low paid workers in the UK pulls down the mid-point of the wage distribution, so higher points of the wage distribution arguably provide a better guide to whether or not the minimum wage is fair in this respect.

The minimum wage relative to alternative benchmark points of the wage distribution



Source: ONS Annual Survey of Hours and Earnings Table 1.6a (2022): gross hourly earnings excluding overtime, all employees.

- While the OECD's measure of the relative value of the minimum wage refers to a standard of full-time employees, the Low Pay Commission references all employees. This is especially pertinent because the UK has a high share of low paid part-time jobs, which depresses earnings for all employees compared to earnings for full-time employees.

Recommendations:

- With the aim of sustaining the minimum wage at a value that keeps up with higher earnings, The Low Pay Commission should redefine its target value in line with the OECD's benchmark wage indicator: 66 percent of full-time employees median wage;
- The Low Pay Commission should also monitor the minimum wage value against complementary benchmark wage indicators: full-time employees 75th percentile; full-time employees 90th percentile.

Fairness 2. The minimum wage should reward valuable work

There are growing concerns that low paid workers, whether caring for the elderly and disabled or working in difficult physical conditions in construction or food manufacturing, are not rewarded appropriately for the value of their work – that somehow the economic price is not an adequate reflection or signal of the real social value of the work.

The problem is that most people working in essential jobs - judged to be of significant value to society (in social care, hairdressers or food manufacturing, for example) - do not have the power to negotiate a better wage with their employer and therefore rely on the minimum wage to fix a decent standard. The UK stands out compared to European countries with a very large share, around one in eight workers, who are paid

the minimum wage or only a little bit more. While fewer people are now paid the minimum wage, the share of workers paid within a 50 pence band above the minimum wage has remained stable - around 12 to 13 percent of the workforce since 2016.

So how should minimum wage policy respond to this issue? Employers in the UK have become used to not having to explain or justify their pay policies and practices. One route to encouraging employers to establish pay setting principles could be via measures that require them to explain how their pay systems comply with the principles of equal pay for work of equal value. Another route is to apply a wage premium above the minimum wage for specific occupational groups - to compensate for particularly demanding work, poor working conditions or to recognise the skills and experience required.

Recommendations:

- iii) Short-term: the Low Pay Commission should consider establishing a set of minimum wage premia for entry-level essential occupations;
- iv) Medium-term: the Low Pay Commission should consider supporting the development of collective bargaining at workplace and/or sector levels for essential occupations and/or expand minimum wage setting to include premiums for skill and/or experience or working conditions.

Fairness 3. The minimum wage should keep up with the cost of living

One of the founding fairness norms underpinning minimum wage legislation in countries around the world is that it should secure subsistence for all who work to meet basic needs and live with dignity. But while many countries and the International Labour Organisation (ILO) make reference to an 'adequate minimum wage' this often stops short of a real living wage. In the UK context, this raises two questions: should the minimum wage be more responsive to inflation?; and should it be fixed in line with detailed measures of living expenses (in other words, the real living wage)?

At present the Low Pay Commission is attentive to inflation but does not have the authority to consider changing the minimum wage if inflation rises during the year. The 10 percent rise announced in November 2022 was welcomed by low wage workers but they will have waited almost half a year for it to be implemented (April 2023). As we already saw in 2022, by the time the nominal rise comes through, high inflation had further eroded workers' living standards. The result of this delayed annual catch-up process is a month-by-month struggle to keep up with rising prices, leading to rising indebtedness and in-work poverty.

A related issue is whether or not the minimum wage ought to be fixed as an absolute value in line with measures of the income required to secure a basic and dignified standard of living. This is the explicit aim of the UK's Living Wage Foundation which has had considerable success in registering employers to commit to paying a living wage - around 12,000 employers covering over 400,000 workers.

Recommendations:

- v) The Low Pay Commission should consider quarterly adjustment to the minimum wage in response to inflation exceeding 2 percent;
- vi) The Low Pay Commission should benchmark the minimum wage against the real living wage and seek convergence;
- vii) The Low Pay Commission should undertake regular detailed examination of the net income effects of changes to the minimum wage and Universal Credit for workers living in poor households.

Fairness 4. The minimum wage should provide income security

A minimum wage set as an hourly rate can not provide security of income without complementary protections. Income security requires regular and sufficient working hours and, above all, attention to daily, weekly and monthly earnings.

One in three working-age individuals in households reliant only on part-time work face an especially high risk of poverty. The high risk of poverty among people in part-time work is not only a question of a poor hourly rate of pay. It is also caused by both insufficient volume of paid working hours and irregularity of working hours.

Recommendations:

- viii) Government should enact legislation for a new minimum hours guarantee with provisions for minimum notice periods for schedule changes.

About the Authors

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This paper represents the views of the authors based on the available research. It is not intended to represent the views of all ReWAGE members.

About ReWAGE

ReWAGE is an independent expert advisory group modelled on SAGE that is co-chaired by the Universities of Warwick and Leeds. It analyses the latest work and employment research to advise the government on addressing the challenges facing the UK's productivity and prosperity, such as Covid-19, the cost-of-living crisis and labour shortages.

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