EXECUTIVE SUMMARY

Sectoral wage inequality, or pay disparities between different industries and occupations, remains one of the defining weaknesses of the UK labour market. Sectors dominated by women, such as social care, retail, and hospitality, remain significantly behind high-pay professions, despite full adherence to extant labour laws. Current statutory frameworks address minimum pay and individualised discrimination claims only, while leaving structural pay disparities and wage compression wholly unregulated. This brief sets out the case for a statutory Wage Equity Commission (WEC) by highlighting three central legal problems underpinning sectoral wage inequality, and concludes with five recommendations for reform.

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Closing the Wage Gap: The Case for a UK Wage Equity Commission

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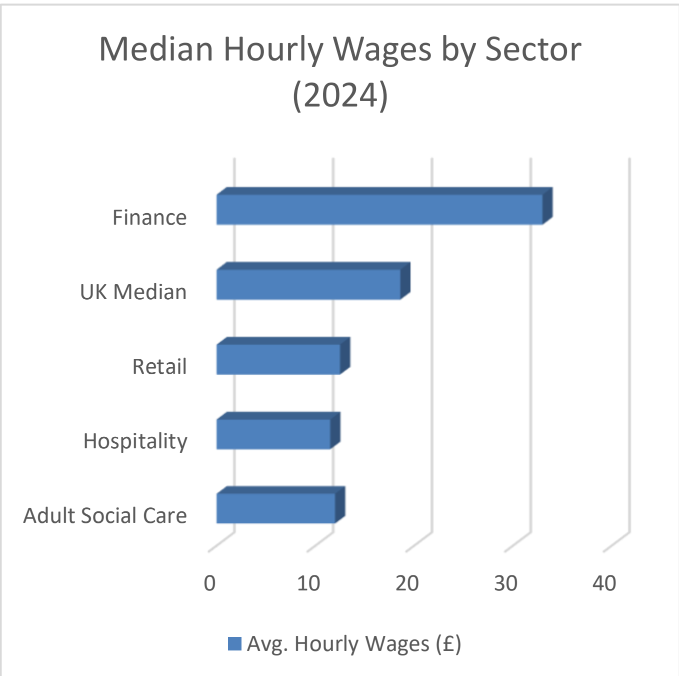
Existing Issues

1. Labour Law Regulates Minimum Pay, Not Wage Distribution.
2. The Gender Wage Gap and the Structural Undervaluation of Women's Work.
3. Wage Compression and the Absence of a Supervisory Mechanism.

The Problems in Detail

Lack of Wage Distribution Regulation:



Source: Skills for Care (2023) and ONS ASHE

UK labour law focuses primarily on preventing extreme underpayment, rather than shaping how wages are distributed across the labour market. The National Minimum Wage Act 1998 sets legally enforceable hourly rates but provides no mechanism for addressing disproportionate wage disparities above the statutory floor. This allows significant gaps to persist between low-paid workers and median or high-paid earners, even where employers comply fully with the law.

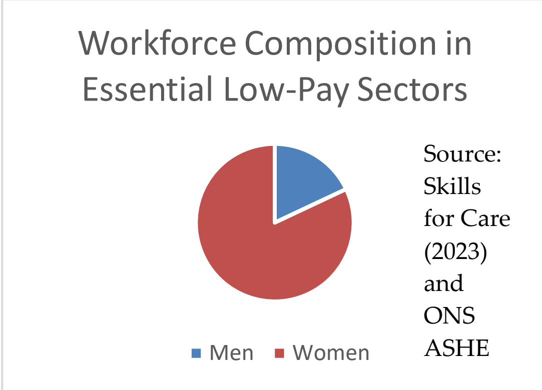
Similarly, the Equality Act 2010 offers limited tools for addressing wage inequality. Equal pay provisions (ss.64-80) depend on identifying a comparator performing "like work" or "work of equal value". This individualised, comparator-based model cannot address structural disparities that arise from market norms or organisational wage-setting rather than discriminatory treatment. The Supreme Court in Asda v Brierley [2021] affirmed these doctrinal limits: equality law can equalise pay where discrimination is shown, but it cannot restructure wage hierarchies.

Because neither statute regulates how wages relate to one another within organisations, UK labour law cannot prevent or correct widening wage gaps. The persistence of large disparities between low-paid workers (£11-£13 per hour) and the UK median (£18.64) illustrates the consequences of this regulatory gap.

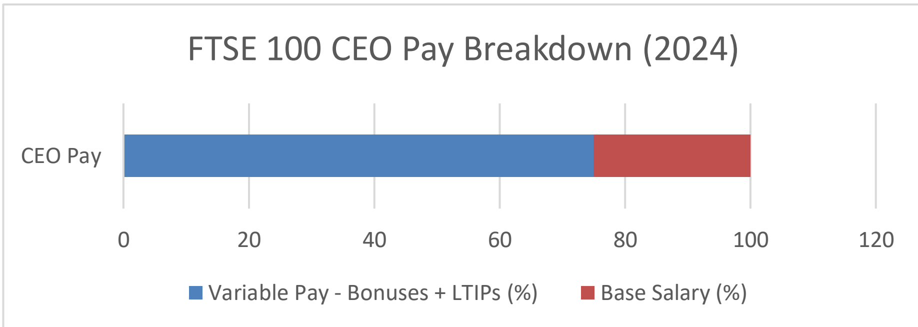
The Gender Pay Gap and Structural Undervaluation:

A major contributor to wage inequality is the persistent undervaluation of work performed by women, reflected in a gender wage gap of approximately 14%. Women are disproportionately concentrated in the lowest pay quartiles, often in roles characterised by limited bargaining power, fewer progression routes, and longstanding assumptions that their work is “low-skilled” or inherently less valuable. These structural dynamics depress wages for women across the labour market and reinforce long-standing inequalities.

Labour law provides limited mechanisms for addressing this form of structural undervaluation. The Equality Act 2010 requires a valid comparator and cannot address wage differences that arise from gendered occupational segregation or historical undervaluation rather than direct discrimination. Gender pay-gap reporting regulations increase transparency but impose no obligations on employers to remedy identified gaps, resulting in limited impact. The forthcoming Employment Rights Bill focuses on enhancing job security and predictability but does not provide any framework for promoting wage fairness or addressing gender-based pay disparities.
Since women make up a large proportion of the lowest-paid workers, the gender wage gap plays a central role in widening overall pay inequality and intensifying wage compression.



Wage Compression and the Absence of Supervision:



Wage compression (where wages at the top rise significantly faster than wages at the bottom) is a key driver of increasing wage inequality. Executive remuneration structures in large organisations heavily favour variable pay. FTSE 100 CEOs receive 70-80% of their total income through bonuses and long-term incentive plans (LTIPs), with base salary representing only 20-30%. These remuneration patterns create internal pay gaps that can exceed 1:100 within a single organisation, even when wages for lower-paid workers grow only marginally.

Existing legal frameworks do not regulate proportionality in wage-setting. While the Companies Act 2006 (s.430C) mandates disclosure of executive remuneration, it does not empower any regulatory body to intervene where pay ratios become excessive. Outside the banking sector (where EU CRD IV imposes bonus caps) there are no statutory limits on variable pay. Crucially, no supervisory institution exists to assess wage gaps, monitor pay distribution, oversee internal pay ratios, or intervene when wage disparities widen unjustifiably.

REFORM: ESTABLISH A WAGE EQUITY COMMISSION

A statutory Wage Equity Commission (WEC) is necessary to fill this regulatory vacuum. The WEC would provide independent oversight of wage distribution and enforce proportional wage-setting practices. Its responsibilities should include:

- Collecting and analysing wage-gap and pay-ratio data across medium and large employers.
- Establish reasonable wage-gap thresholds reflecting organisational size and workforce structure.
- Issuing binding Wage Equity Notices requiring employers to correct unjustified disparities.
- Regulating short-term executive bonuses by capping variable pay at 25% of total remuneration with mandatory deferral.
- Ensuring proportional wage progression so that pay increases are distributed fairly across organisational levels.

By creating a statutory body with investigatory and enforcement powers, the UK would be able to address wage compression for the first time and promote fairer wage-setting across the labour market.

RECOMMENDATIONS FOR CLOSING THE WAGE GAP:

1. Mandate comprehensive wage-gap reporting. Require medium and large employers to publish internal pay ratios and wage-distribution data, disaggregated by gender and pay quartile. This provides the evidential basis needed to identify structural undervaluation and monitor wage inequality over time.

2. Establish a statutory Wage Equity Commission (WEC). Create a supervisory body with powers to analyse employer wage data, benchmark proportionality, and intervene where wage gaps become excessive. The WEC fills the current regulatory vacuum by providing independent oversight of wage-setting practices.

3. Empower the WEC to issue statutory notices requiring employers to correct unjustified wage disparities. Employers should be required to produce wage-correction plans, with penalties for non-compliance.

4. Cap short-term executive bonuses. Limit short-term bonuses to 25% of total remuneration, with mandatory deferral. This moderates wage compression, aligns incentives with long-term organisational performance, and reduces disproportionate wage growth at the top.

5. Integrate wage-gap oversight into the Employment Rights Bill. Amend the Bill obligations for fair wage-setting and cooperation with the WEC. Predictable working conditions must be paired with transparent and proportionate wage progression to ensure that improvements in work security are matched by improvements in pay fairness.

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