# Britain's Labour government sets minimum wage

**Jean Shaoul**
**25 June 1998**

The Labour government of Prime Minister Tony Blair has announced the introduction of a National Minimum Wage for the first time in Britain. This proposal has nothing to do with guaranteeing a decent income for the poorest workers. It is aimed at cutting the welfare bill, forcing people to take low-paid work and ensuring that the large British corporations remain internationally competitive. It will lead to huge cuts in public service provision.

Even the miserly recommendations of the government's own Low Pay Commission (LPC) were too much for Blair and Chancellor of the Exchequer Gordon Brown. The long awaited announcement was delayed while they watered down some of the Commission's recommendations and ignored others.

The minimum wage was set at £3.60 for adult workers, about one-third the male median wage, and £3.00 for 18-21 year olds, with no limit on the exploitation of apprentices and young workers below the age of 18. The minimum wage includes service charges, tips and incentive payments, including commissions, and allows employers to count accommodations provided as a benefit in kind--as in the case of hotel and care workers--up to a limit of £20 per week.

The government rejected the LPC's recommendation that the lower rate for young workers be set at £3.20 for those aged 18 to 20, reducing the rate to £3.00 and extending the age to include 21 year olds. One goal was to avoid undermining the Chancellor's welfare-to-work programme (a workfare scheme), which has a rate of pay set slightly higher than the minimum wage. The extension to age 21 will affect about 40,000 young people, according to the LPC. In making the announcement, Margaret Beckett, president of the Board of Trade, ignored the recommendation that the rate of £3.60 for adult workers be raised to £3.70 in June 2000.

At £3.60 an hour, the minimum wage is less than 50 percent of the median full-time hourly rate. It is below the rate of £180 per week set by the Chancellor in his recent budget as the guaranteed level of income that would not incur deductions. It is also lower than the de facto poverty level of £210 for a family of four.

It is testimony to the appallingly low levels of pay presently existing that even £3.70 will affect 2 million people, or 9 percent of the total work force of 27 million. These include:

• 1.4 million women, more than half of whom work part-time;

• 200,000 young people, 20 percent of those who work;

• 110,000 or more than one-third of all home workers;

• 175,000 or nearly 20 percent of single parents who work;

• 130,000 or 10 percent of workers from ethnic minorities.

The main beneficiary, however, is the Treasury. As a result of the minimum wage, many workers will come off housing benefit and family credit while some households will cross the National Insurance and income tax threshold for the first time. The Social Security bill will be £300 million a year lower, while tax and National Insurance Contributions will increase by at least £700 million.

Overall, the LPC expect that the wage bill will increase by a mere 0.5 percent and most businesses, particularly the large corporations, will not be significantly affected. The most substantial increases are in the retail and hospitality sectors. While many of the larger corporations have already made arrangements to comply, the smaller firms will be hit.

Most industry spokesmen made ritual denunciations of any minimum wage, but conceded that they could accommodate it at the level set. McDonald's, the fast food chain, declined to comment on the implications for its wage bill. A spokesman for the British Hospitality Association made it clear that as long as gratuities and benefits in kind were included, the minimum wage was manageable.

In the textile industry the minimum wage will in practice make little difference. In the cut and trim sector--made up of thousands of small, largely unregulated, sweatshops, usually employing between three and ten factory-based machinists and a team of home workers--wages are far lower than £3.60. The minimum wage could mean rises of up to 50 percent, but enforcing it is another matter. Employers often pay in cash without declaring to the Inland Revenue and do not make National Insurance contributions. Elsewhere in the clothing industry the new minimum wage is only marginally higher than the existing rate of £3.41 per hour.

It is the public services that will suffer most, both as employers and procurers of services. The wage bill for social services in central and local government and the National Health Service will increase by £150 million. But many of the low-paid manual services--such as portering, cleaning, catering and caring--are now outsourced. The cost of procurement will rise as new contracts are negotiated. Without a compensating rise in income for the internal wage bill and external purchases, there will be a further round of cuts in service provision, job losses and speedups for those who remain.

The minimum wage has been set below that of Britain's main economic rivals to boost Britain's competitive position. It is slightly below the American federal minimum wage, and substantially below that of Belgium, France and the Netherlands. It is 75 percent that of Ireland, traditionally a low-wage country, which has recently attracted large-scale foreign investment.

Not only is the minimum wage lower than that of Britain's competitors, it is also a much lower percentage of the median full-time wage than in other countries. Far from reducing social inequality, it insures that Britain will remain one of the most unequal of the industrialised nations. And even after the enactment of this completely inadequate measure, as Blair boasted, the UK will still have 'the most lightly regulated labour market of any leading economy of the world.'

See Also:

Britain's Labour government issues new policy on trade unions

*What is 'Fairness at Work' really about?*

[5 June 1998]

A year of New Labour's 'third way'

[6 May 1998]