Britain: Labour government announces small rise in minimum wage

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The government has recently announced it intends to increase the National Minimum Wage (NMW) for those over 21 years old from £3.70 to £4.00, to take effect in October this year. Young people under 21 will continue to receive £3.20. Even this somewhat miserly rise will be dependent "on the state of the economy". A further rise of 10 pence will take place in 2002.

The proposal, coming on the eve of a probable June general election, has more to do with electioneering than with guaranteeing a decent income for low paid workers. The government has rejected calls from bodies such as the Low Pay Unit, which called for a minimum wage to be set at £4.94. The current rise is still less than half the current median full time hourly rate.

The minimum wage is set below most of Britain's main economic rivals and is being used to boost the UK's competitive position. Far from reducing inequality, it will still make Britain one of the lowest waged and unequal industrialised country: some 23 percent of all adults in full time employment earn less than £250 ($360) a week; 50 percent get less than £350 ($502) a week and 87 percent less than £575 ($825) a week.

The introduction of a minimum wage has been a central part of Labour's employment initiatives. Its "welfare to work" scheme was heralded as ending the "something for nothing" society aimed at getting people off benefits and into work. Trade and Industry Secretary Stephen Byers said of the proposed rise: "The best form of welfare is having a job... the national minimum wage is a key part of making work pay". He went to say that it had had the "greatest beneficial effect " on women's pay since the Equal Pay Act of 30 years ago.

The truth is, however, that the modest increase will do little to raise the living standards of the worst-off low paid workers and provides nothing for the majority of working people. Only a small section of workers initially benefited from the introduction of the minimum wage. Up to April 1999, the proportion of the workforce earning below the minimum wage fell from five to two percent. But this was more than offset by the subsequent depression in overall wage rates.

In its second report on the NMW in February this year, the government-appointed Low Pay Commission (LPC) acknowledged “there appears to have been some erosion of differentials between the lowest-paid workers and those immediately above them where strata of responsibility are narrow, but employers do not appear to be restoring differentials.” The LPC noted that in helping to level out wages, the results of introducing the NMW “are consistent with international evidence which suggests that minimum wages cause substantial compression of the earnings distribution.”

In addition to this general lowering of wages, hourly rates for women still remain at only 80 percent of their male colleagues. For part-time female workers the situation is even worse, with average rates of only 60 pence for every £1 earned by a male employee.

The 30 pence increase in the minimum wage in October will do little to alleviate poverty. In many cases, the employer takes back any increase in the minimum wages in other ways. Much of the wage of the low paid is made up of tips, incentive payments and commissions, and many of these "perks" have been taken away by companies who have been forced to pay the minimum wage. Some employers are also cutting hours, sick and holiday pay, and replacing older workers with under 21 year-olds, who can be employed at a lower rate.

Big business initially reacted with hostility to the minimum wage, fearing that it would damage

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competitiveness. They were reassured by Labour's decision to set the initial rate at just £3.60 an hour, with a lower rate for those under 21. With no significant increase in overall wages costs, Britain has been able to cut its huge welfare bill by over £100 million, with savings set to rise to £300 million. On the whole, the business community has now largely accepted the minimum wage and the proposed increase for this year will not alter this.

The unions trumpeted the NMW as a major step forward in the campaign against low pay. When it was introduced, Unison, the public sector union, launched a campaign to pressure the government to set the minimum wage £5.00 an hour, and a demonstration in Newcastle in 1999 was attended by 30,000 people.

Since then Unison has toned down its campaign, holding a pop concert featuring some of Britain's top bands in place of a demonstration this year. The union is conscious not to upset Labour's apple cart in the run-up to a general election. It is also loath to draw too much attention to its own abysmal record in relation to the fight against low pay.

Unison is the largest union in the National Health Service and has been instrumental in paving the way for the privatisation of hospitals. With the union doing nothing to halt the outsourcing of jobs such as porters, cleaners and catering staff, a substantial section of the union's membership has already seen their wages depressed, in part due to the introduction of the minimum wage.

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