

## **Statutory Minimum Wage: Experience of the United Kingdom**

### **Introduction**

A delegation comprising Members of the Labour Advisory Board (LAB) and staff members of the Labour Department, the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office and the Census and Statistics Department visited the United Kingdom (UK) in mid-June 2008 to study its experience in implementing the statutory National Minimum Wage (NMW).

2. The UK Government established the independent Low Pay Commission (LPC) in July 1997. Its aim is to advise the Government on the coverage of the minimum wage system and the minimum wage rate. The membership of LPC consists of a chairman, three members each from employer and employee sides, and two members with academic background. They are appointed ad personam, i.e. not representing their respective organizations. On 1 April 1999, the first NMW became effective. The NMW applies to most workers in the UK and sets hourly rates below which pay must not be allowed to fall.

3. The NMW has worked well so far in the UK. The LPC is committed to social partnership and mutual respect amongst the social partners. It works independently of the Government. It conducts extensive consultations, formal as well as informal. It ensures the evidence and analysis used are the best available and is willing to be persuaded by the evidence. Therefore, there is a widespread acceptance of the recommendations of the LPC by the community at large, including employers' associations and trade unions.

4. The delegation has found that the UK visit has provided the following useful reference for Hong Kong should the SMW for cleaning workers and security guards be introduced:

- (i) All of the people they met with have adopted a very positive attitude towards the introduction of the NMW since 1999;
- (ii) The success of the NMW is partly due to UK's robust economy in the past decade and partly due to the mutual trust established between employers and employees in the process of handling the minimum wage issues;

- (iii) In determining the level of the minimum wage, the UK has adopted an evidence-based approach, which relies on the relevant economic indicators and statistical data;
- (iv) The UK was very cautious in determining the first minimum wage and the wage level thus set was fairly conservative
- (v) A sound enforcement regime is of prime importance if a minimum wage system is to be successful; and
- (vi) In formulating our own statutory minimum wage regime, we should also bear in mind Hong Kong's unique circumstances.

### **Objective of the NMW**

5. Both the UK Government and the LPC have emphasized that it is a wage floor, not a living wage. In other words, the level of NMW is not set to provide an adequate living standard. It is introduced to prevent workers from exploitation while helping to ensure that companies will be able to compete on the basis of the quality of goods and services they provide and not on low prices based predominantly on low rates of pay to employees.

6. The objective of the NMW can be summarized by a quote from the LPC Report 2005: "Our aim is to have a minimum wage that helps as many low paid-workers as possible without any significant adverse impacts on inflation or employment". When the NMW was introduced, about one million people, i.e. 4.5%, benefited from it. Overall, the NMW increased the nation's wage bill by less than 0.5%.

### **Setting and Reviewing the NWM**

7. The setting and reviewing of the NWM level are conducted on the following principles:

- (i) Evidence-based policy-making

LPC in its annual exercise does not start with the target of achieving a certain percentage of the median wage (the bite). In fact, the bite does not feature at all as an indicator for consideration. In setting and reviewing the NMW, the LPC Secretariat undertakes statistical and economic analysis, based mainly on the data provided by the Office for National Statistics of the UK Government; commissions researches and

relevant studies; and keeps track of international developments on minimum wage etc. The outcome of the LPC deliberation is the NMW. The bite is just a mathematical expression of the NMW as a percentage of the median wage.

(ii) Flexible process

The LPC does not adopt a specific formula in arriving at the SMW rate. Full flexibility is built into the process so that the LPC would look at a basket of factors as well as the evidence and submissions collected throughout the year in deciding the appropriate level of the NMW for recommendation to the UK Government.

(iii) Cautious approach

The LPC took a cautious approach in recommending a fairly conservative level of NMW when it was introduced in April 1999 in order to minimize the possibility of job losses. When the NMW was introduced in 1999, the adult rate was 45.7% of the median hourly earnings of all workers. In 2007, the respective percentage was 51.1%.

8. The LPC took into account a wide range of evidence on pay differentials, business costs, competitiveness, inflation, employment and public finances<sup>1</sup> that helped determine the most likely effects of NMW in setting the introductory level of the NMW.

9. The LPC reviews the NMW level every year. It is noteworthy that the review cycle and frequency are not written into the NMW Act. The NMW Act allows both upward and downward adjustments of the NMW level.

### **Impact Assessment**

10. Since the introduction of NMW, the LPC has carefully assessed and closely monitored its impact on the economy in general and the labour market in particular. Impacts on those sectors, firms and workers which are more likely affected by NMW have also been assessed. The major areas include:

- (i) Impact on earnings – coverage, the NMW, prices and earnings, distribution of earnings, and pay differentials;

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<sup>1</sup> The factor of public finances was dropped and the factor of economic conditions was included in subsequent years.

- (ii) Impact on economy – employment and working hours, prices and profits, and productivity and training;
- (iii) Impact on low-paying sectors; and
- (iv) Impact on groups of workers.

11. In general, as a wage floor, the NMW entails no significant impact on economy and the labour market. Assessed on a macro basis, there is no impact on closures of companies, nor noticeable decrease in the number of small and medium-sized enterprises. There is no evidence of an adverse impact on the employment opportunities of the more vulnerable groups, including women, the disabled, migrant workers and the youth due to NMW.

12. Yet, there is evidence to suggest that the effect of NMW is not even across sectors. Some low-paying sectors would be more affected than the others. Even the LPC admits that impact assessment needs to be a continuous exercise. It has commissioned more studies on the effects of the increase in NMW rates.

### **Enforcement of the NMW**

13. The government administers the NMW through inspection and enforcement. Apart from a central unit which collects and analyses data, there is helpline to handle enquiries/complaints on all aspects of the NMW from workers, employers and third parties.

14. To step up enforcement against employers in the low-paying sectors, the enforcement authority conducts risk assessment and identifies low-paying sectors which are reportedly to have most workers prone to exploitation, and intensifies the publicity and enforcement to relevant workers, employer and employee organizations.

### **Stakeholders' feedback on the NMW**

15. Employers' associations and trade unions have the following feedback:
- Agree to the objective that minimum wage is a wage floor that protects the low paid workers.
  - Content with the consultative process of revising the annual wage level

of the NMW currently administered by the LPC which gives sufficient opportunity for them to reflect their views through written submissions and discussion with LPC.

- Show support for the measures adopted by the Government to step up enforcement.

16. Individual employers' associations of the low-paying sectors claimed that they had been hardest hit by the steep increases of the NMW, above the increases of average earnings, from 2004-2007. Their additional feedback is:

- Because of the keen competition of the food chain stores in the retail sector, the successive increases of the NMW cannot be passed on to consumers through price increases and reduction of manpower and/or working hours to balance the budget is the only way out.
- Coupled with the strong pound sterling resulting in fewer tourists visiting UK, the pay differentials in the hospitality sector have been squeezed and the workforce as well as the working hours of the employees have also been reduced.
- To counter the steep rises of the NMW, there is a growing incentive for employers to invest more on automation, mechanisation and training so as to increase their productivity. It is estimated that with about 0.9 million workers in the cleaning industry, about 0.04 million jobs would be lost in the next 10 years as a result.

Labour Department

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