

STUC Response to the Low Pay Commission's Consultation on the National Minimum Wage

Introduction

The STUC is Scotland's Trade Union Centre. Its purpose is to coordinate, develop and articulate the views and policies of the trade union movement in Scotland and, through the creation of real social partnership, to promote trade unionism, equality and social justice; the creation and maintenance of high quality jobs; and the public sector delivery of services.

The STUC represents around 630,000 working people and their families throughout Scotland. It speaks for trade union members in and out of work, in the community and in the workplace. Our affiliated organisations have interests in all sectors of the economy. Our representative structures are constructed to take account of the specific views of women members, young members, black/minority ethnic members, LGBT members, and members with a disability, as well as retired and unemployed workers.

The STUC welcomes the opportunity to respond to the Low Pay Commission consultation on the national minimum wage.

STUC Policy on the National Minimum Wage

The STUC recognises that the introduction of the national minimum wage (NMW) has benefited many low paid workers in the economy. However, we are also of the view that the current level is set too low. The numbers of workers still living in poverty and relying on additional benefits reflects this, with young people and women particularly affected.

We are also deeply concerned about age and gender discrimination in the Government's existing national minimum wage policy. The STUC believes it is fundamentally wrong that 18-21 year olds are not entitled to the full minimum wage and those aged 16-17 have also just become entitled to a minimum wage at lower levels than older workers. This leaves young workers, many of who are students or in full time education, in a dangerously vulnerable position and open to unscrupulous

employers paying poverty wages. We believe that this situation is a major factor in the exploitation of young people at work today.

Furthermore, while acknowledging the increases in both the youth rates and adult rates in the minimum wage in recent years, the STUC is deeply concerned that the gap between the youth and the adult rate is widening rather than closing. We believe that this policy, if continued, will seriously undermine levels of pay for young workers in the long term. This is already being demonstrated as the pay gap between the average earnings of young workers and older workers is widening rather than closing.

The STUC supports a minimum wage set at a rate equal to half male median earnings as a first step towards setting the NMW at two thirds of male median earnings. At current levels, this would set the minimum wage, initially, at 5.68 per hour for all employees. We believe this will immediately:

- increase the minimum wage to a decent level for all low paid workers;
- banish discrimination from Government policy in this area in line with the new legislation on age discrimination and the long-standing equal pay legislation;
- eliminate the widening pay gap between young workers and older workers;
- link female to male earnings – tackling gender inequality in pay;
- ensure that the wages of the lowest paid workers rise as earnings go up.

Although we do welcome the decision by the Government to introduce minimum wage protection to 16 and 17 year olds, we have concerns about the continuing age discrimination of the Government's decisions. The announcement of the NMW for 16-17 means the principle of pay protection for young people has finally been established. It is an important step forward for young workers and a vindication of the campaigning and lobbying undertaken by the trade union movement since the first minimum

wage was introduced in 1999. The STUC's priority will now be to campaign to raise this rate to a decent level.

The STUC also has concerns about the numbers of school age young people who work part time. We would like to see strong protection offered to those aged below 16 to ensure that they are not exploited through low pay.

We also welcome the extension of the national minimum wage legalisation to include homeworkers.

Impacts of the National Minimum Wage

The STUC is pleased to see that the national minimum wage is having a wider and more positive impact on wages than predicted - whilst not costing jobs. The scare stories that the minimum wage would cause bankruptcies and mass unemployment have proved erroneous, with even the CBI forced to admit that the NMW has not had a negative impact on the economy.

A recent Income Data Services (IDS) report confirms that employment was continuing to grow in retail, catering and leisure sectors where the statutory rate has a significant influence on wages. The salaries of clerical workers, ranging from banking staff to civil servants, have also been improved by the minimum wage. Many companies are also now using the annual October rise as the time for their pay review dates.

Evidence shows that every year since the national minimum wage has been introduced, jobs have increased.

Table 1: Number of employee jobs, Scotland, Summer quarter

Year	Employee jobs
1998	2,460,100
1999	2,443,400
2000	2,491,600
2001	2,522,600
2002	2,528,200
2003	2,533,400
2004	2,545,600

Source: Scottish Executive, Quarterly Employee Jobs Series

Encouragingly, IDS found that many firms had already increased their minimum hourly rate to £5, but there was still no evidence that increasing the rate was detrimental to jobs. This suggests that

it will be possible for the minimum wage to rise at least this level in 2005.

The NMW has been successful in benefiting millions of UK workers with each increase as the following table shows.

Table 2: Numbers benefiting from NMW increases

Year	NMW Adult Rate	NMW Gainers
1999	£3.60	1.2 million
2000	£3.70	0.9 million
2001	£4.10	1.3 million
2002	£4.20	1.0 million
2003	£4.50	1.1 million
2004 (predicted)	£4.85	1.5 million

Source: TUC

The fact that jobs have increased as the NMW has increased demonstrates the positive impact of national minimum wage legislation. Even more encouraging is that the minimum wage is benefiting those low paid groups in society who need it most and making work fairer. Evidence from the TUC shows that part time female workers are the main beneficiaries of the NMW increases.

Table 3: Beneficiaries from 2003 NMW increase

	%
Female part time	53%
Female full time	17%
Male part time	13%
Male full time	17%

Source: TUC

Despite the successes of the national minimum wage, the STUC still has concerns about unscrupulous employers who pay their employees less than the minimum wage. The STUC is aware that the workers being cheated out of minimum wage are most likely to be employed in the clothing, footwear and retail sectors, or work as hairdressers, domestic workers or housekeepers; occupations predominately taken up by women. We are also aware that in many instances seafarers working in British workplaces, that is on UK flagged ships and in UK waters, are being paid below the minimum wage.

The STUC is also concerned that many workers, both indigenous and migrant, employed by gangmasters in agriculture, food processing and packaging, as well as unregistered textile factories are frequently paid less than the national minimum wage. On this basis, the STUC fully supports proposed legislation to regulate

gangmasters. We would like to see in the future, legislation on the NMW enforced allowing these workers to earn a decent wage.

Between 1999 and 2003, the Inland Revenue Helpline for the NMW received over 11,000 complaints about non-payment of the national minimum wage and over the same period, the Inland Revenue also identified over £13 million in minimum wage pay arrears for workers. There is clearly a role in firstly, ensuring employees and employers are aware of who is entitled to the minimum wage and at which rate and secondly, ensuring employers comply with the NMW legislation.

However, the key area where the STUC would like to see the NMW legalisation strengthened is in terms of the discrimination against young people which the current rates allow.

Discrimination in the NMW rates

Widening gap between rates

The following table shows how since 1999, the gap between the adult and development rates has shown little sign of closing.

Table 4: Gap between adult and development rate

Year	NMW (22+)	NMW (18-21)	% Difference
1999	£3.60	£3.00	16.7
2000	£3.70	£3.20	13.5
2001	£4.10	£3.50	14.6
2002	£4.20	£3.60	14.3
2003	£4.50	£3.80	15.6
2004	£4.85	£4.10	15.5

Whilst the STUC welcomes the increases that the Government have made to the minimum wage rate in recent years, we note that despite continued lobbying on this issue, they are not committed to narrowing or phasing out the gap between the youth rate and the full rate.

Discrimination of 18-21 year olds

The STUC has iterated its concerns on the lower 'development' rate paid to 18-21 year old workers on many occasions. We are disappointed that the Government, in introducing the minimum wage, also brought in legalised discrimination against young people. By implementing a minimum wage of just £4.10 for young

people aged under 22, this government has sent a message to employers that is acceptable to exploit part of the workforce. Furthermore, evidence from the Office of National Statistics' New Earnings Survey shows that inequality in wage rates between younger and older workers is growing rapidly. In 1979, the average 18-20 year old could expect to be paid 60.8% of the adult rate. In 2003, this had fallen to just 49.8%. Workers under 18 experience more severe inequality, earning only 34.6% of the adult rate in 2003. This has fallen from 36.2% in 2002, and 38.2% in 2001. Successive Governments have rightly acknowledged that the gaps in pay between men and women and between people of different ethnicity must be closed, and have introduced legislation to help achieve this. With the growing commitment to eradicating ageism, now would be the time to take action to halt the growing inequity in young people's wages.

Although, the lower youth rate was initially proposed by the Low Pay Commission to encourage employers to invest in young people, it has in our view, in many cases, created an avenue for employers to exploit young workers.

The lower rate is unfair and is out of line with the practice of most employers who do not pay workers on the basis of age, with more than two thirds of firms using neither the youth development rate nor age-related pay (Low Pay Commission, 2003). The existence of a lower rate also distorts the labour market and undermines the training rate, which applies to workers in the first six months of a job doing accredited training, and thus removes the incentive for employers to provide training in the first place.

For example, the Low Pay Commission Report in 2003 found that some sectors are significantly more likely than others, with more than a third in the hairdressing sector and thirty-one percent of firms in the childcare sector, to use the youth development rate. These sectors consistently and continually exploit workers by paying them low wages and employing young workers in a bid to avoid paying workers their true worth. A study of career service vacancies, prior to the introduction of the NMW for 16 and 17 year olds, found that 40% of hairdressing jobs were restricted to under 18s, clearly a practice designed to avoid paying the minimum wage (Faichnie, Greater Manchester Low Pay Unit, 2003).

Most jobs where pay is affected by the minimum wage are not highly skilled and have a high turnover. It does not take years for staff to become fully competent at the job. There is, therefore, no reasonable training period justification for the youth rate and no evidence to suggest that older workers do a better job. On this basis, pay differences are discriminatory. A Scottish Low Pay Unit survey found that 100% of those surveyed believed that entitlement to the full adult rate should start at an age younger than the current legislation defines.

Paying a youth rate is not good for recruitment, retention or productivity and it sends the wrong message to young people about how they are expected to perform at work and how they are to be treated by employers.

Most importantly the continuation of a lower rate of minimum wage protection based purely on the grounds of age, flies in the face of the Government's own new legislation for combating age discrimination and could seriously undermine the Government's own strategy for progressing equality at work.

Discrimination of 16 and 17 year olds

The STUC welcomes the principle of minimum wage for 16 and 17 year olds. We believe the announcement of a rate for 16 and 17 year olds was a success for both young trade unionists and the whole trade union movement. We are glad that the principle of pay protection for young workers has finally been established.

However, the STUC is concerned at yet another lower level of minimum wage being awarded to young workers. The rate of £3 per hour is not acceptable as it allows further discrimination on the basis of age in our labour market.

In our submission to the Low Pay Commission's consultation on the case for a minimum wage for 16-17 year olds, we presented some shocking statistics from a range of different surveys conducted by UNISON, USDAW and the Scottish Low Pay Unit highlighting a widespread and worrying picture of exploitation of young people in employment. For example, we found:

- A 17 year old hairdressing trainee receiving £1.50 per hour
- A 16 year old retail worker earning £1.31 per hour

- A hotel worker earning just £1.75 an hour
- A life engineer's mate receiving £1.33 an hour.

The UNISON survey in particular revealed some alarming evidence of the level of pay for young workers who do not qualify for the NMW. It was evident that employers have been taking advantage of the lack of a statutory minimum wage with 16 year olds being paid a median wage of just £3.63 with some workers being paid as little as £1.00 per hour. Both union studies found that these jobs provided nothing in the way of training opportunities, chances of advancement within the job or a qualification of any description. We are pleased that, at the very least, these horrific exploitations of 16 and 17 year old workers will no longer exist due to national minimum wage legislation.

We now wish to tackle the existence of a significantly lower rate of minimum wage for these workers. The level at which the minimum wage for 16 & 17 year olds should be set ought to be dictated by a reasoning based on logic, not ageism. Having seen no convincing evidence in support for any lower rates of National Minimum Wage, whether based on age or training needs, the STUC advocates that a flat rate of NMW should be applied to all workers. Our recommended rate for this minimum wage is currently £5.68 per hour, based on half of male median earnings.

A Scottish Low Pay Unit survey found that 50% of respondents believed entitlement to the full adult NMW rate should begin at 16. Further, 74% of the sample disagreed with the statement 'workers aged under 18 should not be entitled to the same rate of NMW as older workers, including when they are doing the same work'. This provides evidence that workers themselves believe that the lower rates for young workers are unfair and unjust.

Contrary to the belief that young workers being paid a lower rate in encourages employer to invest in training, young workers paid the youth rate or no set rate at all are far less likely to receive training opportunities compared with those being paid the adult rate. This is borne out in the studies conducted by both Unison and USDAW, and also in the figures from the Scottish Low Pay Unit.

The STUC believes that the £3 rate for 16 and 17 year olds and the maintenance of a youth rate undermines the training rate, which applies to workers in the first six months of a job doing

accredited training, and thus removes the incentive for employers to provide training in the first place. The introduction of full minimum wage protection for all workers regardless of age linked to the training rate for accredited training, we believe would encourage more employers to invest in the skills of their young workers.

The STUC is also of the belief that modern apprenticeships should be covered by minimum wage legislation, and that at the very least the NMW training rate should be applied to these posts.

A Greater Manchester Low Pay Unit report (2003) found that 16% of Modern Apprenticeship jobs paid less than £1.50 per hour compared to only 2% of non-trainee and apprenticeship jobs, with the average wage for 16 year old Modern Apprentices standing at just £2.11 per hour. This compared to equivalent roles not classed as Modern Apprenticeships, which had an average wage of £3.12 per hour. These low levels of pay, we believe undermine the governments aims to get young people into training, ensuring that Modern Apprenticeships will never be a realistic option for disadvantaged young people.

We are also concerned at the evidence from the EOC showing a pay gap between young women and men taking up Modern Apprenticeships. We, like the EOC believe that the introduction of minimum wage rates to Modern Apprenticeships, will lift the base salary for young women and begin the important process of revaluing women's work, helping to close the gender pay gap.

There may also be some evidence to suggest that, despite the existence of some employers who will unscrupulously exploit young workers, the £3 rate for 16 and 17 year is far lower than the rate already offered by many employers. A Greater Manchester Low Pay Unit survey found that more than 60% of jobs for 16 and 17 year olds advertised at career services were paying rates above the youth development rate (£3.50 at that time). This demonstrates that many employers are willing to pay at least the minimum wage rate to those exempt from the minimum wage (at the time of the survey). A survey by David Stewart, MP for Inverness East, Nairn and Lochaber, found that prior to introduction of the 16-17 NMW rate that 53% of 16-17 surveyed were already receiving at least the National Minimum Wage for 18 year olds and 22% were receiving at least the minimum for those

aged 22 plus. Evidence that many employers do not pay on the basis of age and therefore, little justification for having a NMW system based on age.

Use of the older workers development rate

The STUC would like to see the older workers development rate abolished. There has been low take-up of this rate with a third of firms saying it is too difficult to recruit older workers at this rate and thirty-two percent stating that recruits already have the required skills. The Low Pay Commission (2003) has already admitted that abolishing it would have little impact on the employers' incentives to provide accredited training for adult recruits, since few firms use this rate and, according to a Low Pay Commission, two thirds of those who did use it said it had not led them to improve their training provision. As stated by the Low Pay Commission, abolition would close off a potential loophole for exploitation and simplify the minimum wage. The STUC wholeheartedly agrees with this and urges the Low Pay Commission to abolish this rate.

Conclusion

The STUC has welcomed the introduction of the national minimum wage as a massive step forward in tackling low pay and has protected many millions of workers from being paid unreasonably low wages.

The current levels of the NMW are set too low. The STUC supports a minimum wage set at a rate equal to half male median earnings as a first step towards setting the NMW at two thirds of male median earnings. At current levels, this would set the minimum wage, initially, at 5.68 per hour for all employees.

Furthermore, we believe the lower rates for 18-21 year olds and 16-17 year olds has led to legalised age discrimination. We would wish to see all workers paid the same rate which protects all employees equally from unscrupulous employers.

This Government should be delivering a decent, living minimum wage to all workers regardless of age. The STUC urges the Low Pay Commission to take this opportunity to abolish the discriminatory youth rates of the national minimum wage and allow all workers to be entitled to the full adult rate.