

LOW PAY AND MINIMUM WAGE FIXING

Gerard McMahon*

Introduction

Low pay has emerged as a topical and increasingly emotive issue in Great Britain and the Republic of Ireland in recent years. European Community (E.C.) advances toward a single market by 1992 have brought the call for an E.C. minimum wage directive into even sharper focus. The adoption of the European Social Charter of Workers' Rights with its 'equitable remuneration' or 'fair pay' provision, by the European Council of Ministers in 1989, ensures its retention on the political agenda for the foreseeable future. Of course with high levels of unemployment and keener competitiveness in a recessionary environment, in both jurisdictions, many employers are either forced or simply inclined to avail of existing labour market conditions. The large labour surplus leaves workers grasping at any opportunity to increase their income beyond paltry welfare entitlements or simply to gain access to the coveted bottom rung of the jobs ladder. Such a scenario has also provided Government motivation in Great Britain to reduce the scope and to state its intent to eventually abolish minimum wage protection (Pond, 1989). In Ireland the Government's reluctance to address effectively the low pay phenomenon is best reflected by its objection to aspects of the E.C. Social Charter, including a rejection of any minimum pay law (Flynn, 1989). Whether these Governments can withstand the pressure in the long term from those Community countries wishing to avoid 'social dumping' or the adverse effects of a deregulated and decentralised labour market is debateable (Teague, 1989). In both Britain and Ireland a vociferous lobby group comprised of trade unions, religious organisations, poverty agencies, economists and political parties has now surfaced demanding the introduction of a statutory national minimum wage (S.N.M.W.) to alleviate the low pay problem.

In this article the origins and merits cum demerits of the British and Irish selective minimum wage system is examined and evaluated in an internationally comparative context with particular reference to the social and economic implications of the S.N.M.W.

*The author is a lecturer in labour relations with the College of Commerce, Dublin Institute of Technology.

Source of Low Pay Protection

The legislative origin of the selective statutory minimum wage system now operative in Britain, the Republic of Ireland and Northern Ireland can be traced back to the second half of the nineteenth century. At this time there was growing concern over the use of 'sweated labour' throughout the British Isles. Demands for minimum wage subsistence were designed to tackle the problem of 'sweated labour' which was characterised by very low wages with long hours of work in insanitary conditions. Whilst at Government level there existed some anxiety with regard to this practice such concern was countered by the view that state intervention in wage fixing would increase unemployment levels (Bayliss, 1962).

In 1909 a compromise initiative was given effect in the Trade Boards Act. This facilitated the establishment of tripartite boards — representing interested trade union and employer parties and independent type conciliation members — which set legally enforceable minimum rates of pay in trades 'where the rate of wages prevailing in any branch of the trade is exceptionally low, as compared with that in other employments'. Stressing the importance of the measure Winston Churchill argued:

"It is a serious national evil that any class of His Majesty's subjects should receive less than a living wage in return for their utmost exertions. It was formerly supposed that the working of the laws of supply and demand would naturally regulate or eliminate that evil But where you have no organisation, no parity of bargaining, the good employer is undercut by the bad and the bad employer is undercut by the worst where these conditions prevail you have not a condition of progress, but a condition of progressive degeneration . . . the degeneration will continue, and there is no reason why it should not continue in a sort of squalid welter for a period which compared with our brief lives is indefinite" (Churchill, 1909).

Section 2(1) of this enactment provided for the establishment of such minimum wage fixing boards in Ireland. Under the provisions of the Act four such organs were introduced in Britain and five in Ireland (Bayliss (1962) Mortished (1947)).

Arising from the report of the Whitley Committee — which acknowledged the limited scope and cumbrous operations of the existing system — the 1918 Trade Boards Act was passed vesting in the Minister for Labour power to set up a board in any trade where 'no adequate machinery exists for the effective regulation of wages'. This new enactment replaced the exceptionally low wages criterion under the premise that these boards would now exist as the precursors of voluntary collective bargaining rather than as suppressors of 'sweating'. Consequent to this revision fourteen new boards had been established in Ireland by

1921 (Ditch et al. 1983). This new enactment also contributed to dramatic post-war developments in Britain where by 1920 there was thirty-seven boards covering three million workers and 300,000 employers (Craig et al. 1982).

In 1945 the British Wages Councils Act was framed to encourage the creation and continuation of trade boards. As well as renaming the boards as wages councils a number of significant operational amendments were made to the system. A similar modernisation process was given effect by the Wages Council Act, 1945 in Northern Ireland. This enactment mirrored the British initiative and was paralleled by Part IV of the Free State Industrial Relations Act, 1946 which (also) renamed the boards as Joint Labour Committees (J.L.C.'s). The scope of the system was now extended in all jurisdictions. Prior to these enactments a trade board could only be established for a specific trade. It was now possible to get a minimum wage for classes of workers operating in more than one trade or for a class of worker which did not include the whole of the trade in which they were employed. Whilst the power of the Wages Councils in Britain and Northern Ireland was confined to regulating wages and holidays the Republic of Ireland equivalent was entitled to fix 'other conditions of employment' in addition to wages and holidays. By 1946 there were 54 boards providing statutory legal minimum remuneration protection for about 3.5 million workers in Britain (Bayliss, 1962). In the Republic of Ireland and Northern Ireland however only two and one new board(s) respectively were established between 1922 and 1946, reflecting a slower pace of industrial development in these jurisdictions (Ditch et al. 1983).

Scope and Impact of Legal Wage Minima

Despite the common origins of the selective legal wage minima system its coverage in the 3 jurisdictions now varies considerably. Only those workers in clothing, catering and handkerchief and household piece goods employments are protected throughout the British Isles. In Britain there are now 24 such Wages Councils spanning over two and a half million workers — or 12 per cent of the total labour force. This contrasts with the the position in Northern Ireland and in the Republic of Ireland where there are 9 and 14 such councils protecting 4,000 and 40,000 workers — or 9 and 4 per cent of the total labour force respectively. In contrast with its British counterpart, for example, the Irish systems do not protect workers in retail and licensed trades or in a number of other smaller industrial sub-groups e.g. toys, fur. A notable peculiarity of the Republic of Ireland J.L.C. system is the limited regional applicability of certain committees determinations e.g. Contract Cleaning to the Dublin area (McMahon, 1987).

The reasons for the variety in scope between Great Britain, the Republic of Ireland, and even Northern Ireland with its own unique coverage, appears to have more to do with the piecemeal manner in which minimum wage protection has developed rather than differences in industrial structure and trade union organisation, relative pay levels or the incidence and extent of various occupational groups in the three regions. The practical impact of such a development and adherence to a patchwork wage protection system is that low pay has become an acceptable feature of these economies. For example, using the reputable Council of Europe's fair remuneration 'decency threshold' approximately 1 in 4 full-time, paid-in-full (excluding overtime) adult employees in the Republic of Ireland are low paid (McMahon, 1987). The sectors with the highest incidence of low paid workers are retail and wholesale distribution, miscellaneous services, textiles and the metals and engineering industrial sub-sector. The occupational groups most affected by low pay include indoor sales and other low level non-manual staff, junior clerical staff, private domestic servants and unskilled and semi-skilled manual employees. In Northern Ireland a similar problem persists where nearly 40 per cent of the workforce are categorised as low paid (I.C.T.U., 1988). This includes a quarter of all male manual workers, three-quarters of female manual workers and over a third of non-manual female workers. An even more serious problem pertains in Britain where, using the Low Pay Unit's more conservative low pay threshold (than that applied by the Council of Europe), about 45 per cent of the workforce earn low wages (Low Pay Unit, 1989). Women workers comprise over two-thirds of the group with ethnic minorities and young workers also featuring significantly. The lowly paid are concentrated in the distributive trades and miscellaneous services (i.e. hotels, catering, hairdressing, laundries and private domestic services).

International Minimum Wage Fixing Practices

The close historic, political, legal and geographical ties between the Republic of Ireland, Northern Ireland and Britain accounts for the similarity in their minimum wage regulation machinery. An examination of systems adopted in other countries however further reveals both the uniqueness and inadequacy of this system as other nations developed beyond the patchwork approach to provide more comprehensive, equitable and effective systems. Of course the range of international minimum wage fixing practices employed reflects the evolution of varied objectives on the role of such systems. Official pronouncements on the subject have covered a myriad of objectives which include the provision of a decent wage, elimination of 'sweated labour' and exploitation, maintenance of purchasing power, eradication of poverty amongst workers, removal of unfair competition on the basis of low wages, the fostering of collective bargaining, equal pay for equal work, reduced

industrial conflict and as an instrument of macro-economic policy aimed at rapid growth and equitable distribution of the national income (I.L.O. (1970) and Starr, (1982)).

Whilst there are only two industrialised developed countries currently with the solely selective minimum wage system — the Republic of Ireland and Great Britain — this selective machinery does exist in other industrialised countries (including Spain, Japan, Australia, Portugal, Canada and New Zealand) where it serves as a supplement to generalised minima. As with the aims, so also does the coverage of minimum wage legislation vary considerably across countries together with the actual level of wages guaranteed and the methods established for adjusting them. The practices of our E.C. partners are especially relevant as the S.N.M.W. applies in France (since 1950), in Luxembourg (since 1945), in the Netherlands (since 1969), in Portugal (since 1974) and in Spain (since 1963). In both Belgium (since 1975) and Greece (since 1982) a general minimum is stipulated by national level collective agreements whilst Denmark, Italy and West Germany now set minimum rates of pay through legally binding industry level collective agreements. The S.N.M.W. option is also applied in the United States, Australia, New Zealand and Canada. Reviewing the selective minimum wage system in Britain and Ireland, in the context of other internationally adopted strategies, the International Labour Office concludes:

“Such limited coverage inevitably is open to criticism. Thus, it is not always easy to give the public a convincing explanation of why certain groups of workers are given the privilege of having their wages protected by law and others are not” (Starr, 1982).

One such explanation employed by opponents of the S.N.M.W. option is that higher pay invariably gives rise to job losses leaving the individual with the rather bleak choice of low pay or no pay (Forrest and Dennison, 1984). Such an orthodox or neoclassical economic perspective however has not found universal favour and is directly contested by labour market segmentation theorists.

Labour Market Perspective

Labour market segmentation theory is emerging as an increasingly useful framework for the explanation and analysis of the existence, high incidence and wide extent of low pay. Segmentation theorists essentially differ from orthodox or neoclassical economists by alleging that job and pay structures and job opportunities are significantly influenced by industrial factors such as product-market conditions, institutional structures and production techniques. Whilst worker ‘characteristics’ are determinants of which sector they will be employed in they have no impact

upon the ratio of high to lowly paid jobs available in the economy. Orthodox theorists view the low pay phenomenon however as a consequence of the 'quality' of workers. A further dimension of segmentation theory involves a distinction between primary and secondary industrial sectors. Primary industrial sectors are characterised by large firms, using modern technology, facing a stable product-market and maintaining some market power. Secondary industrial sectors are comprised of small firms, using traditional technology, facing competitive and often declining product-markets. Though this classification involves model types, and low pay is to be found in all industrial sectors, its highest incidence in secondary sectors (e.g. clothing, footwear, distribution, hotels and catering) as opposed to primary sectors (e.g. banking and insurance, chemicals, electricity and gas) is striking. Allied to this is the potential base for successful trade union organisation in primary entities whereas in secondary sectors the proliferation of small firms impairs such a development.

Segmentation theorists also contest the neoclassical perspective of pay structures as reflecting relative labour efficiency or marginal productivity. They view the number of high paying jobs in the economy to be the result of industrial and technological developments whilst the existence of 'non-competing labour market groups' ensures that there is no equalisation of pay to labour productivity between such groups (e.g. nurses and accountants). In effect secondary sector jobs result more from the low product-market valuation of goods and services produced and from the low market status of the workers employed than from objective differences in job content or productivity between the two sectors. This contests the 'human capital school' view which attributes low pay to the low productivity potential of the low paid workers. This argument is however somewhat circular in that low pay itself is used as the evidence for the alleged causes of low pay, low skill and personal inefficiency. However successive studies including Craig et al's. (1982) survey of five industrial sectors provides substantive evidence of the phenomena whereby the skills required for basic production work in higher paying modern technology firms is no higher than that in more traditional sectors, and the existence of 'non-competing groups' leaves certain classes of labour more or less permanently confined to the low pay sector (Wilkinson (1981), Brown (1984) and Department of Employment (1987)). In addition those firms whose ability-to-pay is restricted by their inefficiency and/or product-market position offer a low pay reward. Analyses of official earnings data in Britain, Northern Ireland and the Republic of Ireland reveal that although there are differences between industries and occupations in average pay levels practically all such industries and occupations, including those with high average pay, have a low paid segment. Furthermore low pay is concentrated amongst disadvantaged labour market

groups. For example, women workers comprise over 60 per cent of all low paid workers in the three jurisdictions. Both young and part-time workers are also disproportionately represented in the figures. In Britain the disadvantageous labour market position of ethnic minorities has now been determined as, for example, male West Indians earn 15 per cent less and male Asians 14 per cent less than comparable whites (Brown, 1984). A further disturbing facet of the phenomenon is that there is no tendency for the incidence of low pay to decrease progressively over time — in fact the contrary would appear to be the case (Low Pay Unit (1989) and McMahon (1987A)). In addition the absence of trade union penetration in large industrial sectors and employment types leaves many workers outside the scope of any collective bargaining arrangement whilst the selective and limited legal minimum wage system excludes large numbers of workers from any form of wage protection. This existence of disadvantaged labour market groups, relatively high unemployment levels, practices of family income pooling and state welfare assistance together with the necessity for most people to secure any form of employment allows employers to recruit at and persist with wage payments far below the 'norm'. These conditions may well provide employers with less incentive to compete through innovation in production methods, product quality, consumer service or by establishing new markets. Reliance upon a competitive advantage of low wages, whilst retaining obsolete technology, will be an unlikely saviour in the face of competition from, for example, third world countries with their larger pools of cheap labour. Of course the low paying employers incentive to train and retain staff will be reduced whilst the workforce itself may display less than the desirable level of commitment. Nolan's observations on the performance of the British economy, when comparing unit costs in manufacturing in 15 major industrial nations, make this possibility something less than a ludicrous hypothetical scenario:

"the countries with the highest wages and social charges (the United States, West Germany, Belgium and the Netherlands) are more cost effective than the U.K. because their respective labour forces are more productive although average incomes are much higher than in the U.K. so too is the level of output per-worker hour over time, low wages and low productivity have become self-reinforcing (this) may actually damage the dynamic potential and competitive structure of the economy" (Nolan, 1988).

Conclusion

Both the case and pressure for a comprehensive wage safety net to replace the historic patchwork political compromise system in Britain and Ireland is gaining momentum. It is now argued that the introduction of a minimum wage may give rise to macro-economic benefits including economic growth via higher consumer demand together with increased

productivity and profits via the swifter replacement of obsolete technology and the abandonment of the wage undercutting tactic in favour of more sophisticated corporate strategies (Pond et al. (1982), Craig et al. (1982) and Brosnan et al. (1987)). Indeed research results both from those economies where a minimum wage is in place and from projections of the measure's potential impact reveal an absence of enduring evidence to suggest that a minimum wage exerts a disemployment effect or anything more than a very modest inflationary impact. At the workplace level a fair wage is also likely to exert a beneficial effect through higher morale, improved work standards and reduced labour turnover. In fact the predominantly positive experience with the S.N.M.W. in a wide range of developing and industrialised nations serves as a useful example in the British and Irish context. It is also notable that numerous employers and employer organisations, in both Britain and Ireland, have acknowledged the beneficial role, and indicated a clear preference for the retention (albeit with modification), of the existing selective legal wage minima system.

Given the failure in both economies to effectively eliminate low pay by selective wage minima, supplementary social welfare payments, national level wage agreements and income policies biased toward the lowly paid, joint industrial councils or trade union plant level organisation and negotiation the case for an alternative mechanism may be supported, even on social justice considerations alone. Beyond the 'fair day's pay for a fair day's work' axiom a minimum wage would assist in the elimination of that poverty which is directly related to low pay. In the long term, for example, the measure would also help counter the poverty arising amongst the unemployed or aged who once worked in lowly paying jobs or for those who now find themselves in the 'poverty trap'. At the end of the day the impact of any minimum wage will be directly influenced by it's level, coverage, enforceability, individual product-market conditions and the scope for substitutability of the factors of production in each employment unit. Both the social justice or equity, and efficiency or economic impacts, of the measure could be assessed in conjunction with it's gradual introduction allowing any potential detrimental results to be addressed immediately. Such a strategy was successfully employed with the equal pay directive and contrary to the warnings of opponents of that initiative it is relevant to this topic that women's relative pay and employment levels have increased by significant proportions in both Britain and Ireland since the 1970s.

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