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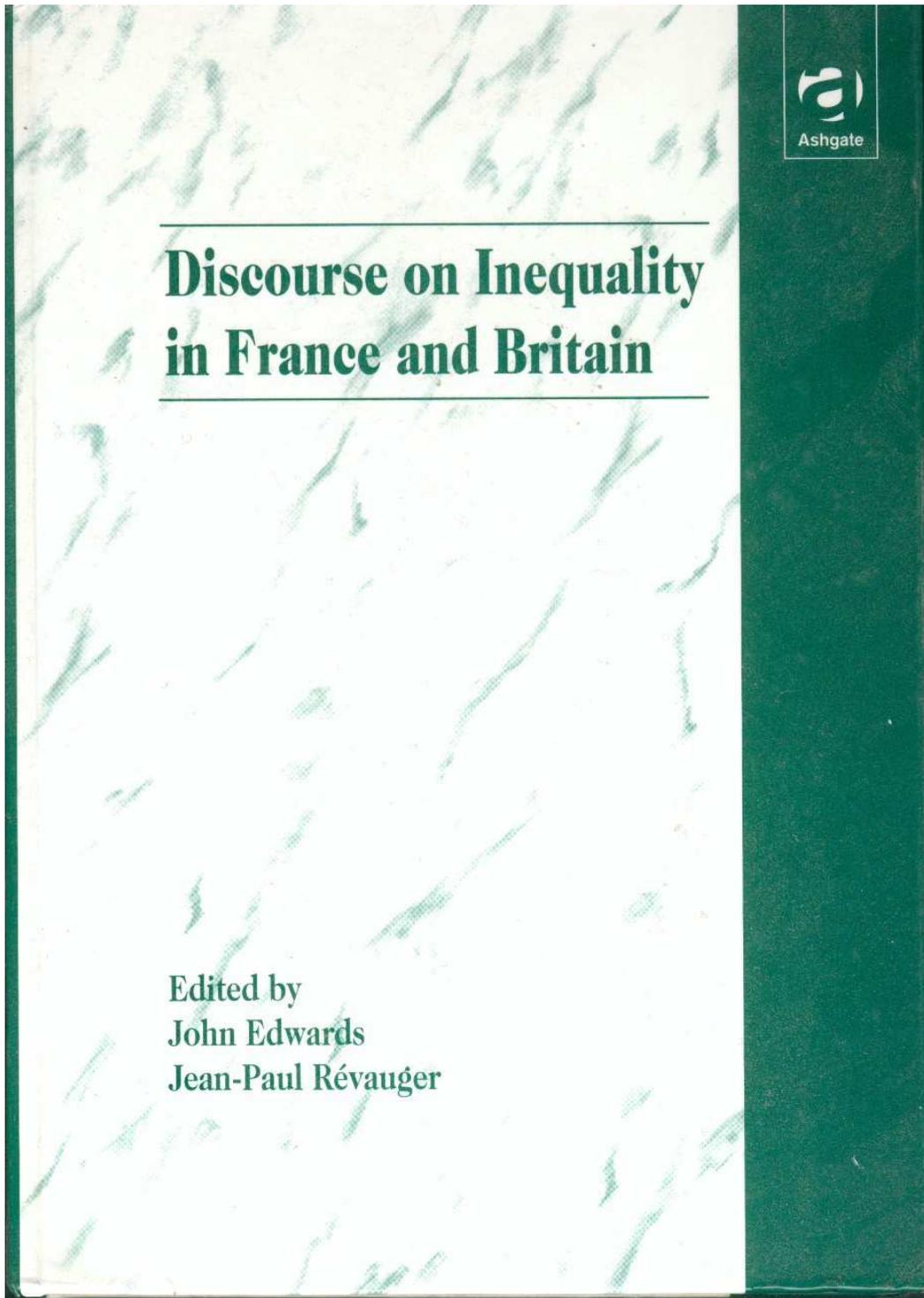
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**Discourse on Inequality
in France and Britain**

Edited by
John Edwards
Jean-Paul Révauger


Ashgate

15. The National Minimum Wage :Pride or Prejudice?

Timothy Whitton

Background

It was not until the 1987 election campaign that the TUC and the Labour Party clearly came out in favour of introducing a national minimum wage in Great Britain. The unions have traditionally been opposed to this type of legislation for a variety of reasons. First and foremost they believe that voluntarism is far more desirable than state intervention and that above all, collective bargaining would in the long run be the most efficient way of putting an end to poverty wages.

Coming to terms with the fact that union organisation has failed and has not been able to extend out to embrace those sectors affected by poverty wages has most certainly been a difficult bullet to bite. But the unions have eaten humble pie and come round to the idea that poverty wages can only be abolished through across-the-board minimum wage legislation.

As can only be expected, the unions have endeavoured to capitalize on their minimum wage policy 'u' turn. To this end their recent campaign for the national minimum has been high-profile, a far cry from the traditional motions voted at every annual congress when members implored the unions to do their utmost in order for wage protection to reach the four corners of industry.

Added to this is the effect of the Wages Councils which, until abolition in 1993, were in a position to protect the most vulnerable flanks of industry from low wages. However much actual Wages Council minimum wage-fixing machinery can be criticized, their job was to establish minimum wages for workers who, because of labour market conditions, were prone to the harshness of low wages. Designed as substitutes to free collective bargaining, the Wages Councils have always been a grumbling appendix to the trade union movement for they existed as the everyday proof that worker organisation was just not in a position to eradicate pittance wages. Their disappearance has not only meant that Britain is now the only country in Europe with no form of minimum wage protection, but also, as we shall see later, has resulted in further wage depression in former Wages Council industries.

This tallies perfectly with the Conservatives' devotion to the free market. In the name of job flexibility, competition and the usual litany of free-market principles that underpin 'Thatcherite' ideology, the Conservatives have gradually eroded legislation that hinders the basic rules of supply and demand on the labour - and therefore wage - market. Instead, wage(income)-supplementing was introduced in 1971 with Family Income Supplement (renamed Family Credit in 1988) whereby workers earning less than a certain rate could ask for their income to be 'topped up'. And it is worth noting that the 1974-79 Labour government did not abolish this legislation hoping possibly that the Social Contract would render wage supplementing redundant.

This leaves the Labour Party to somehow wriggle round all these obstacles in order to present its own case. Having committed itself, it is now being politely asked to go the whole hog and state a specific level for the national minimum wage. With the election won and industry's resistance to a minimum wage unabated, New Labour knows that the subject is best avoided and hence Blair's pledge to establish a Low Pay Commission. This is a neat compromise because by relying on a commission to establish and monitor the promised minimum wage, Labour has substantially reduced the potential the minimum wage question

has to create difficulties now it is in office. Should it take the plunge and commit itself to one particular minimum wage then calculating the economic cost of such a decision is a simple question of classroom mathematics. In this respect, their approach was far more electorally friendly than any statement on an hourly or weekly rate could have been.

Various groups - Low Pay Unit, Child Poverty Action Group, etc - have for years been campaigning either against low wages, for a national minimum wage or both. They are far more concerned with the effect a national minimum wage would have on reducing social disadvantage and poverty - especially household poverty in the Child Poverty Action Group's case - to the extent that in many cases it becomes difficult to see the wood for the trees. In their hands, the minimum wage becomes far too often a magic wand capable with one touch of getting rid of either inequality or poverty due to low pay. Even though poverty stemming from low pay often makes up the plight of numerous households struggling to make ends meet, the link between the two is not that straightforward. Indeed a majority of people having to cope with poverty are deprived of any work whatsoever and a national minimum would therefore have very little direct impact on them. Income and wages are far too often considered to be one and the same thing and even if it is true that in practise this is often the case, legislation deals with them quite separately. Interaction between the two is nonetheless paramount in deciding on redistributive policies designed to reduce inequalities.

In the run-up to the 1997 General Elections, the Catholic Church also threw its moral authority behind a minimum wage in a pamphlet entitled *The Common Good and the Catholic Church's Social Teaching*², in which Cardinal Basil Hume strongly criticised the 'abuse of economic power' which according to the church, deprives employees of a decent wage and damages social cohesion.

Disemployment effects

One of the main arguments against the introduction of a minimum wage is the disemployment effects that it would generate. In the eyes of the freemarketeers, wages should depend solely on what the employee is worth to the employer. In this way wages will automatically and 'naturally' reach their market-clearing level thus rendering any outside intervention superfluous.³

In an ideal labour-market where unemployment is reduced to a strict minimum and is purely frictional, this argument holds some water because the labour force is in a position to negotiate the conditions it thinks fit for a particular industry. Obviously the more clout the worker organisation has in the form of a union for example, the better the conditions negotiated will be. Other factors have to be taken into account, such as the distribution of competition on the labour market, but generally conditions tend to be satisfactory. The present day 'real' labour market offers quite a different picture. Unemployment has in recent years remained at overall high levels meaning that not only is labour market competition extremely fierce but also many workers have been marginalized from mainstream union organisation.

In times of high unemployment minimum wage legislation can be considered as a luxury because government's main concern is job creation, but at what cost?⁴ Eliminating all obstacles including minimum wage legislation is one way of encouraging employment but the price to pay is an even more extensive distribution of wages. The margins of this include on the one hand a low-wage, poorly trained, inadequately organised workforce which in the long run could lead to such social disadvantage that the ultimate bill will be more expensive, and on the other hand, fabulous salaries paid to top executives. Comparing the two certainly provides material for newspaper headlines which are only too eager to underline the inequality of wage distribution but shed little light on the impact a national minimum wage

would have on British industry. Whereas the minimum wage can go a long way in eradicating poverty wages, the impact it would have on wages at the top of the spectrum is only minimal.

As far as the labour market is concerned, there is little evidence to suggest that a national minimum wage *fixed at a reasonable rate* would have the disemployment effects feared by so many. To illustrate this the following table shows some of the different rates suggested:

Table 15.1 Definitions of low pay 1997

| | £/wk | £/hr |
|---|--------|------|
| Council of Europe's decency threshold (68% full time average earnings - men and women) | 239.16 | 6.31 |
| Low Pay Unit's pay threshold (66% median male earnings) | 223.27 | 5.89 |
| Half median male earnings | 167.45 | 4.42 |

[Low Pay Unit calculations based on 1996 *New Earnings Survey*. Average weekly pay £351.70. Median weekly pay £334.90. Average hours per week 40.2. Average weekly hours excluding overtime 37.9]

Source: The New Review of the Low Pay Unit, N.43, Jan/Feb 1997, Unison: London.

The TUC's official figure is not clear for although £4.26/hr seemed to be the target for the 1996 Congress; "Opposition to a national minimum wage intensified yesterday after it became clear that some of the most powerful unions will be upping their demands from £4.26 an hour to £4.41." (The Guardian, 27 September 1996). This came in the wake of an embarrassing misunderstanding between the TUC and Labour, the latter preferring to leave the precise rate at which the minimum wage should be set until after the election.⁵

The idea of a reasonable rate is important here because what is striking about the minimum wage debate is the fact that one major question remains hanging namely, who exactly is the minimum wage supposed to protect? In other words, the precise nature of 'disadvantage generated by low wages' has never been fully addressed, leading to the wrong questions being answered in a variety of ways. To illustrate this let us look more closely at the sort of workers who the above minimum wage targets would affect the most. The following table sets out the figures for a few selected industries.

Table 15.2 Some employment sectors with high incidences of low earnings. Full time manual workers; men and women

| <i>Sector</i> | % Women | | | % Men | | |
|--|-----------------|------|------|-----------------|------|------|
| | Earnings Below: | | | Earnings below: | | |
| | 350p | 400p | 460p | 350p | 400p | 460p |
| Agriculture: growing of crops, Market gardening, horticulture | 23.2 | 52.2 | 72.5 | 17 | 38.9 | |
| Manufacture of textiles | 21.9 | 43.8 | 64.9 | 11.9 | 24.2 | |
| Manufacture of wearing apparel; Dressing and dyeing of fur | 31.7 | 52.8 | 72.4 | 30.3 | 42.2 | |
| Manufacture of footwear | 14.8 | 36.1 | 54.1 | 6.8 | 17 | |
| Wholesale of food, beverages and tobacco | 33.8 | 50.7 | 63.4 | 17.4 | 32.3 | |

| | | | | | |
|-----------------------------|------|------|------|------|------|
| Retail* | 21.7 | 41.7 | 68.5 | 18.2 | 34.9 |
| Hotels | 45.6 | 72.5 | 80.2 | 45 | 60 |
| Restaurants | 49 | 73.1 | 88.3 | 53.9 | 69.4 |
| Bars | 60.4 | 78.2 | 81.8 | 50 | 68.9 |
| Canteens and catering | 17.4 | 43.5 | 73.9 | 16.7 | 28.1 |
| Education : secondary | 27 | 50 | 67 | 8.6 | 31.6 |
| Higher | 14.3 | 34.9 | 61.9 | 14 | 28 |
| Other service activities | 48.7 | 70.9 | 84.1 | 36.6 | 51.2 |
| All industries and services | 22.5 | 39 | 57.7 | 10.4 | 20.1 |

* Retail trade except for motor vehicles and motorcycles, repair of personal and household goods.

Gross hourly earnings pay-period not affected by absence.

Source: *New Earnings Survey 1995*. HMSO, tables 70 and 72

If we apply the suggested national minimum wage rates to this table it is clear that the lower figure of £4.26 would have a considerable effect on full time women manual workers and some impact on their male counterparts.⁶ The upper figures suggested by the Low Pay Unit and the European Council would affect a majority of workers both male and female in these particular industries and indeed in other ‘better paid’ ones. The rates do seem ambitious and employers may be justified in voicing their fears about the adverse effects these sort of minima would have on employment. In a recent study undertaken at the London School of Economics, the authors argue that a national minimum wage set at £4.41 would affect 20 percent of the workforce and inevitably generate unemployment.⁷

Experience from abroad

In order to assess the impact of the national minimum wage on the British labour market, situations in other countries on the continent provide useful comparisons. This is especially true in the context of the single European market which in the long run might make a European minimum wage a legal requirement. France is an ideal example where it is estimated that about 1.7 million (10.5 percent) workers are directly affected by the “salaire minimum interprofessionnel de croissance” (SMIC). This is pitched at about 71 percent of the average wage and is applicable to all workers aged 18 and above. About 14 percent of working women are directly affected, the figure for men being 5 percent. In some cases interestingly enough, agreements reached through collective bargaining set wages below the national minimum wage. This means that incremental rises do not necessarily mean higher wages at the end of the day because the wage floor artificially sets wages above their negotiated rate. It is difficult to estimate the consequences that wages set above their market clearing level have on employment but one thing remains certain, namely that incidences of poverty pay in France remain extremely marginal.

The SMIC has also long been accepted by employers and to a certain extent the general public who were very virulent in their condemnation of a former Prime Minister's attempt to tamper with it. The outcry was such that the project of establishing a separate SMIC for young people was soon withdrawn. Ironically though, France does not have any minimum

income even though the “Revenu Minimum d'Insertion” has tended increasingly to fulfil this function.

Empirical evidence

Bearing in mind what is said above and given that official unemployment is decreasing in Great Britain but moving in the opposite direction in France, it is worth wondering whether many workers are not pricing themselves out of jobs. To put it more simply, has wage deregulation contributed to the decline in unemployment in Great Britain? The Conservatives would agree but probably more for ideological reasons than anything else. Empirical evidence on the other hand would suggest that minimum wages, unless set ‘ludicrously’ high, do not have adverse effects on employment. A survey undertaken by the TUC shows that “86 percent of personnel officers said a minimum wage of £4.10 would cause no job losses in their business” (Trade Union Council 1996). However, this sort of postulate may be based on unrepresentative data insofar as the very fact that the sample firms had personnel officers suggests a certain degree of organization and size which is exactly what the majority of low paid workers lack. Industries that can afford to employ personnel officers more often than not pay decent wages. The same mistake is reiterated further on in the report when a survey carried out by the Institute of Chartered Accountants is quoted. According to the Institute, 51 percent of survey respondents claim that employment would not be cut if a national minimum wage was set at £4.50. Needless to say however, that the sectors being referred to are not particularly affected by low wages.

One way of verifying the empirical evidence is to examine the situation in the former Wages Council industries three years after abolition. The following table shows just how rates in four of the formerly protected sectors have been affected since 1993.

Given that 14.3 percent of employees in the sectors assessed are earning less than the 1993 Wages Council rate and 49.6 percent less than what would be the 1996 Wages Council rate, a rise in employment could be expected in these sectors. This rise should be particularly important as far as part time employment is concerned since in both cases figures are higher (15.3 percent and 57.5 percent respectively). As the Low Pay Network report suggests, although it is not possible to make direct causal links between rises or falls in pay and changes in employment because of numerous other factors which affect the labour market, it is interesting to turn the disemployment hypothesis of minimum wages upside down and see whether the abolition of minimum wage fixing and subsequent wage reduction have contributed to a rise in employment in the affected areas. The statistics used by the Network show that employment growth was greater prior to abolition than post abolition! What stands out even more clearly though is the number of full time jobs that have disappeared since abolition whereas part time employment has increased in the same proportions as in 1992-1993 just before abolition. In more general terms, these figures corroborate evidence that part time work is a direct consequence of wage deregulation and the drive towards greater flexibility.

Table 15.3 Percentages of workers being paid a) below relevant Wages Council rates in November 1993, April 1994, April/May 1995; b) below the rate fixed prior to abolition (Relevant rates calculated using inflation weighting)

| | Below Old rate | Below April/May | Below April | Below November |
|--|-------------------|--------------------|----------------|-------------------|
|--|-------------------|--------------------|----------------|-------------------|

| | | 1995 | 1994 | 1993 |
|--------------------|------|------|------|------|
| Hotel and catering | | | | |
| Full time | 7.8 | 33.1 | 21.1 | |
| Part time | 12.2 | 54.3 | 33.1 | |
| All | 10.4 | 45.8 | 28.0 | 20.8 |
| Shops | | | | |
| Full time | 22.2 | 49.1 | 36.6 | |
| Part time | 20.2 | 63.1 | 55.7 | |
| All | 20.7 | 59.5 | 51.4 | 27.1 |
| Clothing | | | | |
| Full time | 16.0 | 30.1 | 29.8 | |
| Part time | 3.8 | 15.4 | 17.2 | |
| All | 14.3 | 28.0 | 28.4 | 13.9 |
| Hairdressing | | | | |
| Full time | 25.0 | 43.2 | 33.3 | |
| Part time | 13.0 | 60.9 | 34.5 | |
| All | 20.9 | 49.3 | 33.9 | 20.8 |
| All jobs | | | | |
| Full time | 12.5 | 36.7 | 26.3 | |
| Part time | 15.3 | 57.5 | 42.2 | |
| All | 14.3 | 49.6 | 36.5 | 22.3 |

Source: Adapted from *Priced into Poverty: An Analysis of Pay Rates in Former Wages Council Industries, Low Pay Network*, 1995, p. 12.

One can only conclude that contrary to current thinking, the abolition of minimum wages has not led to an increase in employment in the sectors concerned. Since these are the lowest paying industries in the British economy, it can be assumed that a minimum wage pitched at the former lowest Wage Council rate (£2.66/hour April 1993, button manufacturing) would not have adverse effects on employment (see Whitton, 1995).

If we link this to the former question of whom the national minimum wage is supposed to protect in the first place, then the answer is clear: those people on the labour market whose wages, because of a variety of factors including inadequate worker organisation, high labour turnover, poorly qualified workers and a saturated labour market to quote but a few, are less than £2.66/hour. This includes a majority of part time workers - most of whom are women - who make up the lowest paid members of the British workforce. If this rate is updated, then the figure of £3.20 quoted by Metcalf which would lift 10 percent of the workforce out of poverty wages, seems realistic if perhaps slightly ambitious because of the disruptive effects it could have on wage distribution when initially introduced (see *The Guardian*, 1996).

The impact of a minimum wage on wage distribution and poverty

As mentioned before, trade union hostility to minimum wages has traditionally been based on their belief that collective bargaining is the only healthy way out of poverty wages. At the end of the 1980s having sustained severe damage from the Thatcher governments, the unions

gradually came round to the view that *poverty pay and decent levels of pay* were no longer within their grasp and that:⁹

An effective fair wage strategy must be based on the twin pillars of collective bargaining and legislative support. Collective bargaining by itself will inevitably fail to reach many of those in poorly organised sectors where low pay so often prevails (Trade Union Council/Labour Party, 1986, p. 5).

Soon this call for legislative support became an outright appeal for a national minimum wage and a revision of their traditional stance:

The TUCs bargaining strategy and Labour's programme for tackling poverty will help us to achieve just that. The centrepiece for this has to be the national minimum wage. Nothing can remove the gross injustice of poverty pay (Trade Union Council, 1991, p. 390).

This view matured rapidly until the TUC openly acknowledged the weaknesses of worker organisation in some sectors:

... we believe that free collective bargaining was never going to nor will it ever adequately take care of the right of all people to earn a decent level of pay,... (Trade Union Council 1991, p. 392).

This is reminiscent of the shortcomings of the 1970s Social Contract which despite union pledges largely failed to improve pay conditions for the worst off. One of the main reasons behind this was the unions' inability to exclude from negotiations the proportion of increase that was specifically designed to improve pay for the poorest.

The question of wage differentials is of course paramount in establishing a national minimum wage because of the possible disruptive 'knock-on' effects. It is thought that employees are keen to maintain differentials even if this entails a damaging increase in the overall wages bill. What actually happens though is that wages tend to cluster round the minimum: those earning under the minimum are abruptly awarded a rise whereas those earning just above see their wages gradually absorbed into this minimum wage cluster. To this end the lower end of the wages spectrum tends to be compressed in the long run and according to some researchers this phenomenon can *contribute* to an increase in employment.¹⁰ This increase can be put down to several factors the main one being stability of wages within the given sector which in turn reduces wages undercutting and enables employers to compete on the basis of quality. In addition to this, if the firm involved has specific skill requirements, then employers will have incentives to reduce the quit rate of workers.¹¹ This is perhaps wishful thinking when the type of employment most prone to low wages is taken into consideration. Low paid workers are concentrated in low skill industries where training is more often than not hands-on and short. Even so, the reliability of a workforce is surely an asset that cannot be overlooked.

Given that a relatively low national minimum wage would protect the most vulnerable workers from poverty pay, the next issue to address is the effects it would have on household poverty. The constant confusion of wage rates and wage income has tended to foster the myth that a national minimum wage would make important inroads into household poverty insofar as it would hoist low wage earners into a higher wage bracket and out of poverty. This would be true if a national minimum wage were set at such a rate as to increase wage income for people working a 39 hour week up to or in excess of what they would be entitled to on income support.

It is also commonly thought that households deemed to be poor derive their main income from the earnings of a low paid worker. Contrary to popular belief, far more poverty can be attributed to unemployment than to low wages despite the concentration of the low paid in the lower household income deciles. Low paid workers are likely to come from poorer households but using the national minimum wage to alleviate their poverty is once again a misuse of legislation. For the minimum to have any impact on household poverty, it would have to be pitched at a rate likely to exclude the workers it is supposed to protect from the labour market. Loss of earnings from employment condemns workers to rely solely on benefits to make ends meet. On the other hand, a minimum wage set so as to generate passport earnings to benefits - if the interface between the two is exploited correctly - while not threatening employment, appears to be the only reasonable way out, at least if only to give the national minimum wage a chance of becoming a viable economic reality.

The extent to which wage earnings provide workers with a passport to social allowances is not easy to determine especially in terms of household income since benefits depend largely on individual family circumstances. There seems nevertheless to be a drive to set the minimum wage at a level that would enable wage earners working a 39 hour week to dispose of income at least in excess of income support which in itself is certainly laudable but somewhat modifies the reason why a minimum wage should be established in the first place. If we accept that the minimum wage should initially be designed to protect the most vulnerable members of the workforce then increasing coverage to encompass family needs means that the minimum wage rate encroaches upon wage income thus distorting the interface between itself and benefits.

There is one major snag to this argument, namely Family Credit which was introduced in 1988 to replace Family Income Support. Since 1992, Family Credit is used to top-up wages for employees working at least sixteen hours a week (see Barber and Whitton 1993). It might be argued that it is possible to come to terms with this system, however unethical it may seem, for the sake of getting a national minimum wage on the statute books in the belief that the minimum could play a vital role in encouraging government to discard wage topping-up in the near future by relating wages to earnings far more than to incomes. The current wage supplementing system does ensure a certain degree of redistribution but in doing so distorts even more the overlap between incomes and earnings.

Added to this is the simple fact that one single across-the-board national minimum wage is simple and easily accessible and enforceable and thus would lend itself to a multitude of other functions including that, if need be, of a benchmark for the calculation of a plethora of social benefits. To avoid any contaminating overlap between the two, the national minimum wage should fulfil one single function, that of protecting the most vulnerable. These are the terms on which, in my opinion it has a chance of being implemented. Its future thereafter would be a matter of examining its integration into the distribution of wages involving a revision of its *raison d'être*.

Conclusion

Minimum wages essentially disrupt the bottom of the wage spectrum and if we believe that rather than integrating protective legislation labour markets should accommodate a lower margin of the most vulnerable poorly paid workers, then the national minimum wage is not on the agenda. My own thoughts on the national minimum wage have somewhat mellowed over the last few years and I no longer think that it is the end to all evils inherent in wage distribution.

We should not allow sentiment to prevent us from addressing the issue of the national minimum wage in a realistic way. That is not to say that the national minimum wage cannot

by itself instantly wipe out earnings related poverty. It can alleviate disadvantage to a certain extent by being integrated into a benefit scheme whereby income becomes the determining factor rather than wages. If the national minimum wage is burdened with too many virtues then it will sink under its own weight and will not even be given a chance to display its potential to evolve and come up to greater expectations.

Notes

1. For further discussion on wage supplementing see Whitton, T. 1995, pp. 114-123.
2. As reported in *The Guardian* October 22, 1996.
3. This theory is rather knocked on the head when one considers the 1970 Equal Pay Act whereby women's pay increased by about 10 per cent. There is little evidence to show that this had considerable disemployment effects for women.
4. Even though one leading politician did suggest that unemployment was a price worth paying for bringing down inflation and creating financial stability!
5. Although the 1996 TUC conference had initially endorsed this approach by calling for 'more than £4', and £4.26 in the first year of a Labour government, at least two prominent trade unionists, Scargill and Bickerstaffe, soon broke ranks and even increased their initial targets.
6. Figures for bar and hotel work are low but additional cash due to tips must be taken into consideration.
7. Fernie, S. and Metcalf, D. *Low Pay and Minimum Wages: the British Evidence*, London School of Economics: London, September 1996 (forthcoming 1997).
8. In compiling their tables, the Low Pay Unit used figures from the *Employment Gazette*, January and July 1995 and the *Historical Supplement*, October 1994.
9. They have possibly been encouraged to think along these lines by the European Commission's desire to see member countries commit themselves to decent wage levels. Even so, since the government has not signed the Social Charter, Britain is not in breach of European law by not having any machinery to protect the lowest paid. Complaints to the European courts therefore have only a limited impact although they do help to maintain the issue in a European context.
10. For a full analysis see Dickens, R., Machin, R. and Manning A. 1994.
11. This is often referred to as dynamic monopsony which very briefly means attracting more workers by reducing wage competition. In instances where workers have little opportunity to exploit competition between employers in order to sell their labour to the highest bidder, essentially because qualifications and experience have little negotiating value (for example a timber firm in a remote region in Canada) dynamic monopsony is plausible. If this theory is applied to the low paying sectors of the British labour market there are some similarities but the monopsonistic situation is completely distorted by fierce labour market

competition due to excessively high unemployment. In a perfect monopsony workers can accept - or almost indulge in - employment if they so desire whereas in the sectors we are concerned with, employment is more often than not a precious commodity. Using 'decent' wages to maintain a reliable workforce is probably a far more credible argument but in the absence of national minimum wage legislation depends entirely on individual employers' management.

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