low pay: Labour's response
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May 1983
ISBN 7163 0488 0
ISSN 0307 7535
Fabian Society, 11 Dartmouth Street, London SW1H 9BN.

Cover design by Dick Leadbetter
Printed by Black Rose Press (TU)
Photoset by Range Left (TU)
1. Introduction

The present Government's policies, combined with the effects of the economic recession, have resulted in a dramatic worsening of the low pay problem. At least seven million adult workers — more than a third of the adult workforce — earn low wages. And the gap between the low paid and the rest of the workforce has grown wider still under Thatcher. Indeed, in terms of relative earnings the lowest paid male manual workers now earn less (compared with the average wage) than in 1886 when figures were first collected. While unemployment has forced many groups of badly paid and often non-unionised workers to accept still lower wages, the Government have removed many of the basic protections against exploitation, including the ‘fair wage’ provisions and employment protection measures introduced by previous Labour governments. They have weakened and threatened to abolish the wages council minimum wage machinery.

Trade unions and the Labour Party have identified as a priority the need to develop a strategy to deal with the growing problem of low pay, which Denis Healey has described as "the most important single issue" which would face the next Labour government. (Labour Party Conference 1982). The Party's campaign document includes the commitment to discuss with the TUC the possibility of a national minimum wage, while the Labour Party/TUC joint agreement includes a proposal for an "improvement in living standards including the social wage for the low paid and those in poverty". But as yet the Party is without a comprehensive and carefully worked out programme to tackle low wages.

This pamphlet is intended as a contribution to discussions within the Labour Movement about the type of strategy necessary. Chapter 2 examines the scale of the low wage problem which we now face, and the ways in which the present government has increased wage inequalities. Chapter 3 examines some of the main explanations (and excuses) for low pay. Orthodox wage theories help to legitimate existing wage inequalities and government inaction, but they are supported by little convincing evidence. We argue that the causes of low pay are such that intervention is necessary to spring the British economy from the low wage trap in which it is caught. Chapter 5 sets out a possible programme of reform which might form the foundations of a future strategy. The centrepiece is a negotiated minimum wage, backed by the force of law.

We argue that such a policy is essential if real improvements are to be made in the position of the low paid. However, we have tried to devise a policy which is compatible with trade union action and the extension of collective bargaining. Finally, we examine the possible effects of decisive policies designed to improve the position of the low paid. We argue that the consequences are unlikely to be as dire as the establishment economists and the government normally predict. And to the extent that there are costs associated with action on low pay, these must be balanced against the costs of inaction, measured in terms of hardship, injustice and economic waste.
2. How Big is Britain’s Problem of Low Pay?

Low pay affects between a quarter and a third of the adult workforce. In terms of its scale alone, it is a problem which deserves urgent political attention. Even in comparison with unemployment, with which low pay is closely associated, its proportions are immense. Moreover, like unemployment, low pay is a major cause not only of poverty and hardship, but of injustice and economic waste.

A comparison between these two problems—low pay and unemployment—may be seen as a form of heresy. There are some, even in the Labour movement, who believe that unemployment can be the only priority; that low wages are a problem (if at all) of much lesser significance; and even that measures to deal with low pay should not be contemplated for fear of making unemployment still worse. Yet low pay and unemployment are not discrete and easily separable problems; their causes and effects—often also their victims—are similar. They are part of a continuum of labour market disadvantage which consigns a large proportion of the workforce to long term insecurity and hardship. Moreover, we are not faced with ‘a choice’ of dealing with low pay or unemployment. Both must be tackled together, and many of the solutions are commonly shared between them.

“One of the reasons why the issue has not received greater political attention is the difficulty of defining what is meant by low pay.”

This chapter examines the scale and effects of low pay and the impact of the post-1979 Conservative government in making matters still worse. One of the reasons why the issue has not in recent years received greater political attention is the difficulty of defining exactly what is meant by ‘low pay’ and so we need to begin by trying to identify who are the low paid. A second cause for hesitation in according low pay high political priority is the lack of agreement, even amongst the Left as to either the causes of the problem, or the appropriate solutions.

The scale of the problem

Opinions differ widely about the meaning of low pay. Is it pay which is considered too low for the type of work done, or in relation to what others are paid? Is it pay which is too low to afford an adequate standard of living for the wage-earner and her/his dependents? These are important questions, reflecting a wide range of opinions about the nature of the problem.

Traditionally, trade unions have defined low pay as earnings falling below a level equivalent to two-thirds the average (mean) for male workers. Taking April 1982 earnings data, this would suggest a weekly figure of £89.20 a week. The Low Pay Unit has taken a slightly different approach: because most low paid men are manual workers, basing a definition on this group alone helps to reflect the in-
equalities that already exist, as would a definition based on women’s earnings. In addition, the TUC formula, a ratio of the simple average, or mean, of the earnings distribution, represents an ever moving target, the average itself automatically increases. A better formula would therefore be one based on a fraction of ‘median’ earnings (the exact midpoint of the distribution, below which one-half of the workforce falls). Making both these adjustments, the Low Pay Unit’s definition (two-thirds male median earnings) gives a figure of £92.70 a week.

The choice of a cut off point at two thirds average earnings may seem somewhat arbitrary. Why not half or three quarters the average wage? Perhaps by chance the ‘two thirds formula’ is supported by other sources of evidence. The National Board for Prices and Incomes (NBPI), who examined low pay during the late 1960s, and later the Royal Commission on the Distribution of Income and Wealth, both defined low pay as the point below which one tenth of workers fall (the lowest decile). Using the Royal Commission’s formula – the lowest decile of male manual earnings – produces a figure of £85.50 a week in 1982 (or £89.80 if based on the earnings of all men, rather than on those of manual workers alone). Since the lowest decile of manual men earn roughly two-thirds the average for all manual men, and have done so for almost a century, the trade union approach gives a cash figure very similar to that derived from the deliberations of such official bodies as the NBPI and the Royal Commission.

Further support for the two-thirds formula has come recently from the Council of Europe. Under the European Social Charter, signatory governments are required to ensure that workers are provided with ‘fair remuneration’. Wages which fall below 68 per cent of the simple average for men and women combined — described by the Council as the ‘decenty threshold’ — are not considered to be ‘fair remuneration’.

The ‘decenty threshold’ for Britain in 1982 stood at just under £93 a week.

All these approaches, of course, view low pay as a relative problem. Some people argue that criteria of subsistence are more appropriate, as they provide a measure of poverty itself, rather than inequality. If we were to relate earnings from work to official definitions of subsistence, we might compare the earnings of the low paid with what they would receive if dependent on supplementary benefit (SB). A family of four would now need to earn more than £100 a week to be left with the same net income that they would receive on SB. And the Department of Health and Social Security (DHSS) considers that such a family would be poor enough to claim Family Income Supplement if their earnings fell below £91.50 a week.

Once again, the figures derived from this absolute, subsistence approach are not very different from those arrived at through the relative earnings measures. One of the reasons for this was indicated by the study of Poverty in the United Kingdom undertaken by Peter Townsend (Pelican, 1978). He found that workers with earnings below 60 per cent of the simple average suffered severe deprivation, both in terms of their living standards and in their working conditions.

**Definitions of low pay, 1982, 1982/83**

<table>
<thead>
<tr>
<th><strong>£ per week</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplementary benefit (earnings equivalent)</td>
</tr>
<tr>
<td>Family Income Supplement (eligibility level)</td>
</tr>
<tr>
<td>Council of Europe (60% mean men/women)</td>
</tr>
<tr>
<td>Low Pay Unit (66% median male earnings)</td>
</tr>
<tr>
<td>TUC (66% mean male manual earnings)</td>
</tr>
<tr>
<td>Royal Commission (lowest decile manual male)</td>
</tr>
</tbody>
</table>
Derived from a variety of different approaches, we believe that a definition of low pay of less than £90 a week or £2.25 an hour in 1982/83 is one which should command general acceptance. This definition is applicable to all adult workers, men and women alike. It is based on a standard 40 hour week, but excluding overtime, because we believe that earnings should be sufficient to provide for a socially acceptable standard of living without having to resort to long hours.

Using this definition, the scale of the low pay problem is illustrated in the adjacent table which shows the estimated numbers of adult men and women earning less than £90 in the case of full timers or its hourly equivalent, in the case of part-timers.

<table>
<thead>
<tr>
<th>Males in full time work (aged 21 and over)</th>
<th>Including overtime</th>
<th>Excluding overtime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual</td>
<td>0.9 millions</td>
<td>1.4 millions</td>
</tr>
<tr>
<td>Non manual</td>
<td>0.4 millions</td>
<td>0.4 millions</td>
</tr>
<tr>
<td>All men</td>
<td>1.4 millions</td>
<td>1.8 millions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Females in full-time work (aged 18 and over)</th>
<th>Including overtime</th>
<th>Excluding overtime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual</td>
<td>0.7 millions</td>
<td>0.8 millions</td>
</tr>
<tr>
<td>Non Manual</td>
<td>1.5 millions</td>
<td>1.5 millions</td>
</tr>
<tr>
<td>All women</td>
<td>2.2 millions</td>
<td>2.3 millions</td>
</tr>
<tr>
<td>All full time</td>
<td>3.6 millions</td>
<td>4.1 millions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adults in part-time work</th>
<th>Including overtime</th>
<th>Excluding overtime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>0.2 millions</td>
<td>4.1 millions</td>
</tr>
<tr>
<td>Women</td>
<td>2.3 millions</td>
<td>6.4 millions</td>
</tr>
</tbody>
</table>

Source: Department of Employment 1982.

"Excluding overtime earnings 1.8 million adult men and 2.3 million adult women in full time work earned low wages in 1982".

Excluding overtime earnings 1.8 million adult men and 2.3 million adult women in full time work earned low wages in 1982. Thus the low paid represented almost one fifth of adult men and more than half of all women working full-time. In addition Department of Employment statistics record that one third of adult men and two thirds of adult women working part-time - another 2.5 million workers - also earned low wages. These figures are known to underestimate the scale of the low pay problem. About one third of all part-timers are missing from the Department of Employment statistics because their earnings fall below the National Insurance exemption limit and are therefore excluded from the records upon which the survey is based. Even on the basis of the official statistics, however, almost seven million adults earn low wages. So at least one third of the adult workforce must be included amongst the low paid. This takes no account, of course, of the several hundred thousand young people aged under 18 who experi-
ence low wages and poor working conditions as their introduction to the world of work.

"On the basis of the official statistics, however, almost seven million adults earn low wages".

**Is Low Pay a Problem?**

Low pay is clearly extensive affecting in terms of total numbers, perhaps twice as many people as unemployment itself. But we still need to ask whether low pay is a problem, does it really matter? Many people believe that there is only a tenuous link between poverty and low pay, while others see it as somehow inevitable. It is also often argued that low pay is necessary to ensure the nation's economic success in a competitive world – or at least that measures to combat it would incur heavy economic penalties. We will examine each of these propositions in turn.

**Low pay and poverty**

There is still a tendency to view poverty as a problem facing only those who are excluded altogether from the labour market – the elderly, the unemployed, the sick and disabled, or single parent families without the opportunity to work full time. In 1957 the Labour Party felt confident enough to proclaim that ‘the full employment policies of the post war Labour Government abolished poverty amongst those of working age’. This assumption has built itself into the public consciousness as a self-evident truth, proving resilient to increasingly powerful contrary evidence. The work of investigators such as Brian Abel-Smith and Peter Townsend in the late sixties demonstrated that, even by then, low wages were a significant cause of poverty.

"The present Government argues that the low paid ‘are mainly young with no family responsibilities, or married women bringing in a second income into the home’".

The sense of urgency felt by the last Labour government on the issue of low pay was blunted by the assertions of the Royal Commission on the Distribution of Income and Wealth that, because most of the low paid are married women or young people, low wages and poverty were only infrequent partners. Similarly, the present Government argues that the low paid ‘are mainly young with no family responsibilities, or married women bringing in a second income into the home’.

Recently published DHSS statistics do not appear to offer much justification for such complacency. The statistics show that in 1979 – the latest year for which figures are available – more than two million people were living in families where the income was below the supplementary benefit level – the generally accepted measure of the official poverty line. Almost one in four of these were in families where the breadwinner was employed full-time or self-employed. The numbers to be counted amongst the ‘working poor’ are likely to be higher still today, even though unemployment will have lifted many out of the ranks of the low paid altogether. Since 1979 the number of families dependent on Family Income Supplement (a benefit payable only to families with children who have earnings from full-time work below a specified level) have doubled. Making adjustment for the known take-up of the benefit (claimed by only half those eligible to receive it) we can estimate that in 1982 there were at least half a million families whose full-time earnings were below Family Income Supplement levels.
The full extent of poverty amongst the families of the low paid is masked even by these figures. For instance, as the Royal Commission itself was obliged to point out, many families escape poverty only through the contribution of two wage-earners, sometimes both of them receiving low wages. The Central Policy Review Staff (CPRS) has estimated that the numbers in poverty would quadruple if it were not for the contribution of married women workers to family budgets. The increasing tendency for married women to be excluded from the labour market, due to the recession and Government policy, will have meant an increase in the number of families rendered poor as a result. Further statistical illusion derives from the fact that the data on poverty represents only a ‘headcount’ of the numbers below the official poverty line. These figures show that pensioners are the largest single group amongst the poor; but if account is also taken of the depth of poverty (how far each group falls below the poverty line) Beckerman has shown that the problem is in fact greatest amongst families with children, especially the low paid. This is because social security recipients are normally entitled to claim Supplementary Benefit (SB) to bring them up to ‘the poverty line’. Those falling below the line are probably not claiming their full entitlement or are temporarily disqualified for a specific reason. The low paid in full time work are never entitled to claim SB, no matter how low their incomes, and Family Income Supplement only partly makes up the difference between low pay and the Supplementary Benefit level.

Most importantly the official figures on the numbers rendered poor through low wages give only a snapshot picture of the problem at a single point in time. The impact of low wages has its affect throughout the life cycle. The low paid are more likely to find themselves among the sick or unemployed, and are more likely to experience hardship during spells of unemployment than is the case with the population generally (Low Pay Unit Low Pay and Unemployment, 1980). They are less likely to be able to accumulate savings, to acquire their own home or rights to an occupational pension, and are therefore more likely to find themselves impoverished in old age. As Tony Atkinson has argued, the effects of low pay re-emerge at many stages of the individual’s or family’s life cycle: ‘We need to interpre low pay more generally as low status in the labour market and recognise that it is associated with other factors which may lead to poverty’ (A.B. Atkinson, ‘Low Pay and the Cycle of Poverty’, Low Pay, Ed. Frank Field; Arrow, 1973). The belief that low wages no longer lead to poverty and hardship has been pervasive in its effects, weakening the commitment necessary to tackle the problem decisively: if low pay and poverty are not closely linked why should governments or trade unions risk invoking the consequences of policies designed to overcome the problem? Instead some have come to the conclusion that reform of the social security system would be a better way of dealing with low pay than attempts to influence wages directly. We return to this debate below.

“The Government is concerned that the social security system has to act as a ‘floor’ to wage levels”.

There is another, very important link between low pay and poverty which is too often overlooked, and this is the relationship between the net incomes of those in work and social security benefits. The principle of ‘less eligibility’ has a long tradition within British social policy; it is the principle that those dependent on state benefits should never receive more than those working full-time. Many in the Labour movement find this notion, with its implicit division of the poor into the
'deserving' and 'undeserving', unacceptable. But its effect on policy has been important, underpinned by a belief that work incentives would suffer if the principle were to be relaxed. It is this belief that underlies the present Government's attempts to reduce the living standards of the unemployed – the abolition of earnings related unemployment benefit; the 5 per cent cut in the real value of the benefit itself during the period 1981 to '83; the taxation of national insurance benefits and the reductions in child additions to unemployment benefit.

The Government have never pretended that such cuts were justified because benefit levels were too high in absolute terms – such a suggestion would be patently absurd. But the Government is concerned that the social security system has to act as a 'floor' to wage levels, a 'reserve wage', giving some the option of taking no job at all rather than one at very low wages. In this way, Conservatives believe, wages have been prevented from falling in response to unemployment. Although the present Government have emphasised the so-called 'Why Work?' syndrome to the level of fetishism, it is clear that over the years Governments of both parties have raised social security benefits by less than otherwise might have been the case to avoid overlap between the incomes of the poor in and out of work. Since there has been no effective floor to wage levels themselves, the downward pressure on benefit levels has been intensive. It is for this reason that David Donnison, writing as former Chairman of the Supplementary Benefits Commission, has recently argued that: 'first priority should be given to the 'working poor', particularly to men and women working for low wages and supporting a family... These families, bringing up children on modest incomes, have generally gained least and lost most over the last twenty years from changes in social benefits, in taxation and prices. Their living standards and

norale impose a political ceiling on what any government can be expected to do for people who are not in work.' D Donnison, The Politics of Poverty, Martin Robertson, 1982).

Policies which effectively dealt with the low pay problem would have an impact on the numbers of poor in three ways – by directly raising the net incomes of that substantial majority of the poor who have an income from full time work, by reducing the life-cycle effects of poverty, and by raising the 'political ceiling' which prevents Governments – even Labour Governments – providing the increases in benefits necessary to raise them to an adequate level.

Fair Wages and Economic Efficiency

Concern about low pay, however, is justified on grounds other than poverty. In particular there are important issues of fairness and economic efficiency. In Britain in the early years of this century, and in many other countries since, certain minimum standards of pay and conditions were established, not only to prevent the exploitation of vulnerable groups of workers but also to protect responsible employers against unfair competition based on the under-cutting of wages. As a recent International Labour Office (ILO) study of minimum wages explained: 'the desire to isolate wages from excessive competitive pressures is founded on the belief that while producers should be free to compete in matters of price, design, quality of product and service, it is unfair for competition to be based on a bidding down of workers' wages (G. Starr, Minimum Wage-Fixing, ILO 1981: 24).

Employers who wish to maintain an efficient operation need to plan ahead and to invest in training as well as capital equipment. None of these things is possible if there is a constant threat from other
firms seeking to gain short-term advantage by the use of cheap labour. Some minimum standards of pay and conditions, established either voluntarily or statutorily, are therefore necessary to maximise efficiency. In the contract cleaning industry, for instance, a study by the Advisory, Conciliation and Arbitration Service (ACAS) found that: “A majority (of employers) favoured the establishment of a wages council for general cleaners in the industry, mainly on the grounds that the establishment of minimum levels of pay would help to prevent undercutting. In their view many contractors trading at cut price rates offered a poor standard of cleaning and did not help to improve the image of the industry” (ACAS, The Contract Cleaning Industry, Rept. no. 20, 1980: 61).

“Whole industries have come to rely on the availability of cheap supplies of labour and have geared their operations appropriately”.

It is not only individual firms within industries that rely on low wages for competitive advantage. Whole industries have come to rely on the availability of cheap supplies of labour and have geared their operations appropriately. Low wages mean a lack of investment in training or capital equipment, and high labour turnover. Productivity is reduced with the result that efficiency overall suffers. And these sections of industry, through their misuse of the nation’s economic resources, have a detrimental effect on the economy as a whole.

In arguing the case for a national minimum wage the Department of Applied Economics at Cambridge University recently summarized the economic implications of low pay in this way: “Unregulated low wage employment destabilises product markets, increases uncertainty and risk, slows down the rate of scrapping (of outdated capital equipment) and consequently reduces both the level of new investment and the profitability of new investment in high wage firms. Therefore the case for or against minimum wage protection extends beyond a consideration of its impact on workers and employers (potential and actual) in the low wage sector. Attention must be paid to the effect of unregulated employment on the modern, high wage employment sectors which should provide the basis for industrial growth and stable, secure employment” (Craig et al, Labour Market Structure, Industrial Organization and Low Pay, 1982: 13).

Low wages are often rationalized in economic terms, but as we have shown there are in fact heavy costs in terms of economic efficiency. Not only do the families of the low paid suffer, through hardship and uncertainty, from our failure to act decisively to deal with the problem; the community as a whole pays heavily in terms of the wastage of economic resources.

**Low Pay - Thatcher’s Record**

The Conservative approach to low pay, traditionally, has been somewhat ambiguous. The paternalistic liberal Tory approach, with its belief in principles of fairness in competition and its distaste of extreme exploitation, must be contrasted with the somewhat brasher ‘free market’ philosophy that is now in the ascendency within the Conservative Party. It was a Conservative Government who in 1891 established the first Fair Wages Resolution; a Conservative Government who, in 1982, abandoned it. It was Winston Churchill (albeit in a Liberal phase of his career), who established the foundations of Britain’s wages council minimum wage system, which Tebbit now plans to dismantle. This ambiguity within the Party remains visible; prominent ‘wets’ on the Conserva-
tive benches have been heard to protest at the prospect of an economy based on 'coolly wages', although the backbench revolt against the Government's low wage policies has been less virulent than that directed against some of the social security measures.

Since the 1979 Election, therefore, the problem of low pay has increased significantly. Overall, Department of Employment statistics show that one tenth of full time male manual workers were low paid (with earnings including overtime less than two-thirds the average for full time men and women) in 1979; by 1982 the proportion had increased to one in six. Two-thirds of manual women were low paid in 1979, compared with three-quarters in 1982. Moreover, this was not only the result of a general decline in employment incomes: wage inequalities increased substantially. The lowest decile of full-time adult male workers earned 66 per cent of the median for all full time adult men in 1979 but only 64.5 per cent in 1982; meanwhile, the highest decile of adult men earned 57 per cent more than the average (median) in 1979 and 68 per cent more in 1982 (Department of Employment, New Earnings Survey 1982, HMSO, 1982).

"The growth of youth unemployment has meant that young people are often forced to continue as dependents of their parents."

One of the reasons for this widening of pay inequalities since 1979 is the effect of the economic recession. Because many low paid workers depend on overtime and shift work to bring their gross earnings up to an acceptable level, many more are pushed into the ranks of the low paid as the opportunities for overtime subside. Cutbacks in overtime are, of course, of little importance to white collar workers, especially the better paid. Redundancies have had a similarly discriminating effect; although the Government have argued that workers must 'price themselves' into jobs by accepting wage cuts, the greatest burden of unemployment has fallen on those who are already low paid: low paid manual male workers are six times more likely to become unemployed than the average male worker. Low paid jobs are often characterised by a lack of job security, as well as poor working conditions and few prospects of promotion. High labour turnover in low paying industries means that low paid workers often do not qualify for the few existing statutory employment protection rights (especially since the changes in qualification periods implemented in the 1980 Employment Act) and are not normally well represented by trade unions. So while the fear of unemployment has helped to depress wages generally, its greatest impact has been on the wages of the lowest paid. The maintenance of high levels of unemployment has also helped to push greater numbers of families into poverty as a result of the diminishing opportunities for two breadwinners on which so many families depend. At the same time the growth of youth unemployment has meant that young people are often forced to continue as dependents of their parents, so that the wages of the remaining breadwinners must be stretched still further to make ends meet.

These effects of unemployment in widening the gap between rich and poor in the labour market have been reinforced by other Government policies. First there has been the stringent, but selective, pay policy applied to public sector workers. Cash limits and the abandonment in 1980 of the Civil Service Pay Comparability machinery have resulted in a serious decline in the relative earnings of the lowest paid civil servants, on basic wages as low as £63.66 a week (the rate payable for civil service cleaners). While civil servants
overall enjoyed an increase in pay of only 14 per cent between April 1980 and April 1982, grades above Under Secretary, on salaries of between £25,000 and £42,000 a year, received awards of up to 17 per cent; members of the higher judiciary, on salaries of between £29,000 and £52,000 a year, enjoyed pay rises of between 17 and 21 per cent (Hansard, 12 May 1982, vol 23, cols 257 to 262).

Elsewhere in the public sector it is only those with sufficient bargaining strength who have managed to break through the policy of cash limits. Health workers fought for seven months only to win a paltry increase in pay which left basic rates for NHS incillary workers as low as £65.84 a week in 1983.

In the private sector there is a concentration of the low paid in wages council industries, where rates of pay are particularly low and union organisation is weak. The Wages Councils are a development of the Trades Boards established by Winston Churchill in 1909. Churchill argued that "decent conditions make for industrial efficiency and increase rather than decrease competitive power" (W Churchill, Liberalism and the Social Problem, Hodder and Stoughton, 1909). Much of the pressure from the establishment of the Trades Boards also stemmed from a desire to combat the extreme exploitation taking place in the 'sweated industries'.

**Wages Councils**

Approximately three million workers in industries such as retailing, hairdressing, clothing manufacture, laundries and catering, are now subject to legal minimum rates of pay set by the twenty five wages councils. The groups most affected are women (especially working part time or as homeworkers) and young people. The minimum rates of pay could hardly be considered generous. The highest of the current rates is just £66.25 a week for a full-time adult in a non-food shop (a figure which represents a reduction by £1.25 a week in the original proposal of the Non Food Wages Council due to the intervention by the Secretary of State for Employment. Norman Tebbit - himself earning nine times that amount). At the other end of the scale, a fully qualified hairdresser is entitled, at the time of writing, to a minimum wage of only £57 for 40 hours work, even after five years training.

"The very existence of the wages councils, however, is anathema to the present Government".

The very existence of the wages councils, however, is anathema to the present Government. Pursuing a policy of job creation through wage cuts, the Secretary of State for Employment has made it clear that he would like to abolish the wages councils. To his frustration Mr Tebbit has found himself unable to do so until 1985, the earliest date at which he may revoke an international agreement (ILO Convention 26) which requires signatory Governments to maintain some form of minimum wage machinery for the most vulnerable workers. Should the Conservatives be elected at the next Election, with the Right still in the ascendancy and with a working majority, the wages council will be abolished.

In the meantime the Government has endeavoured gradually to dismantle the wages council system. The number of wages inspectors have been reduced by one third, leaving only 119 throughout the country to oversee the wages of three million workers in half a million establishments. In contrast, immediately on coming to office the Government appointed an additional 1000 social security fraud inspectors, bringing their numbers to 5,500. Not surprisingly, the wages in-
spectators are unable to visit firms on a regular basis (routine inspections now average one every fourteen years) and underpayment has risen accordingly. In 1979, 31.5 per cent of firms were found to be underpaying; by 1981 the proportion had increased to 41.3 per cent.

**Privatisation**

The Government's policy of privatisation has also tended to increase the extent of low pay. Hospitals have been encouraged to contract out their laundry services to private firms; Government departments have 'hived off' their cleaning and catering services. So ideologically committed has the Government been to this practice, that Departments have been encouraged to contract out these services even where the change makes little saving in cost and efficiency. In some cases, private contractors have proved more expensive, and less efficient, than directed labour organisations (Emma Maclellan, "Contracting Poverty", Review, No 17, Low Pay Unit, November 1982).

In order to ensure maximum savings through the policy of contracting out, therefore, the Government decided to abolish the Fair Wages Resolution, despite opposition from both employers and unions. The Fair Wages Resolution was designed to ensure that firms did not win Government contracts by paying wages and providing conditions less favourable than those enjoyed by directly employed staff. Harold Macmillan, speaking for the Conservative Opposition of 1946, described the Resolution as "the protector, certainly of the standard of living of the workers, but also of the standards of competence and honour of industry as a whole". Its purpose was thus not only to protect workers against exploitation from unscrupulous contractors, but to maintain standards of service and protect employers from unfair competition based on wage undercutting. The Resolution was formally abandoned just before Christmas 1982, even though the Government had to renounce yet another International Agreement, (ILO Convention No. 94) in order to do so (Chris Pond, "Back to the Sweatshops" New Society, 23 December 1982).

**Low Pay Schemes**

A final thrust of Government policy has been to set up schemes deliberately designed to encourage low pay. The Young Workers' Scheme (YWS) is an example. Under the YWS employers are offered a subsidy of £15 a week for each young person they employ at a wage of less than £40 a week; wages of between £40 and £45 qualify for a subsidy of only £7.50. Employers who can pay more and wish to do so are entitled to no subsidy at all however many young workers they take on. The purpose of the scheme is therefore not to create jobs. Indeed, firms need not show that they have taken on additional staff to qualify for a subsidy. They need merely to cut the wages of the young people they already employ, or replace adult workers for those aged under 18 on a low wage. While the scheme was set up to 'encourage' employers to pay lower wages (an encouragement which many have done without for some time) an added aim has been to put pressure on the wages councils to award lower minimum rates for young people. The scheme has had some success in this respect, and cases of employers receiving a YWS subsidy because they are paying illegally low wages have come to light.

A study of the YWS carried out for the Department of Employment (but never published) shows how misguided the government's strategy of job creation through low pay has been. For every 100 jobs subsidised through the scheme, only 7 new jobs have been created. The remainder have been dead-weight jobs which would
have existed anyway (although perhaps at higher wage levels) or jobs in which subsidised workers displaced other workers. Every new job created for a young person has cost the Government £6,000 – money which could have been used to directly employ young people in some of the essential services the government has been cutting back.

3. Explanations and Excuses for Low Pay

The Government’s main excuse for doing nothing about low pay – other than to encourage it – is that it would lead to unemployment. Their policy of cutting wages has in fact only served to feed the syndrome of unemployment bred from poor demand which has plagued Britain’s industry. But though the problem of low pay has considerably worsened since the Conservatives came to office in 1979, it is a problem which has long been with us.

As the Department of Employment noted in a recent study, “the distribution of manual men’s earnings has remained stable since 1970, and indeed… this distribution has changed little, particularly at the lower end. over the period from 1886 to the present day” (Employment Gazette, October 1981). In 1886 the poorest tenth of manual men earned 68.6 per cent of the average wage; by 1982 they still earned only 68.3 per cent of the average. Over these years there have been many excuses for inaction on low pay. In this section we will consider some of the most frequent of these excuses, and the reality behind them.

“People are paid what they’re worth”

It is a commonly held that people who have high salaries are being justly rewarded for exceptional ability, skill and experience. Those on low wages, on the other hand, are the less able among us who lack the talent needed to do well. Many of those on high pay who rail against the ‘excessive’ wage demands of manual workers do not, therefore, judge their own higher incomes by the same criteria. Crude though such beliefs may be as an explanation for wage inequalities, economists and statisticians have, over the years, provided more or less sophisticated justifications for this approach. The belief that pay is related to ‘natural abilities’, and that inequalities are the inevitable expression of these differences, for instance, has been pursued by those seeking to relate earnings to the ‘normal distribution’ of other characteristics such as physical height. While attractive, such an analogy between income and natural characteristics collapses into absurdity when tested against the evidence. As Barbara Wootton has observed: “if the heights of the persons studied, instead of obeying the normal
curve, had been distributed like income, the tallest giants would have been three miles high" (Barbara Wootten. The Social Foundations of Wage Policy. London: Unwin Books, 1962).

Applying this analogy to pay today we find that in 1982 the average male wage earner, if his height were related to his pay, would be just over 5 feet tall (assuming a real average height of some 5'8\(\frac{1}{2}\))”. The lowest paid ten per cent of male wage earners would stand at 3'3\(\frac{1}{2}\), those on the average wages council minimum rate would be 2'1", and the lowest paid man to contact the Low Pay Unit that year (doing homework at 20p an hour) would be just over 3 inches tall. On the other hand, the highest paid wage earner in Britain that year (Mr Richard Giordano, chairman of the British Oxygen Company BOC) would have stood over 4 miles high for his pay packet alone, not considering the fringe benefits that go with high paid positions. Low pay is therefore not a ‘natural’ phenomenon.

A related but more sophisticated argument is that of the ‘human capital’ thesis, that the well paid are those who have ‘invested’ in educational and training qualifications which make them more productive. One question which arises from this is why, if employers are forced to pay very high rates for those who have been trained in essential occupational skills, more money is not spent in training others for those occupations in order to reduce the scarcity value which pushes wages up. The answer lies partly in the use of professional and occupational restrictive practices. As described by Wootten: “Explicit monopolisation of highly-paid occupations is perhaps rare. At the same time, entry into every profession is by no means open to all who can pay for their own training, or can get the State to pay for it on their behalf. It is, for instance, common knowledge that the medical schools accept only a tiny minority of the students who wish to train as doctors and have passed the required pre-

liminary examinations” (Ibid).

Restricting entry into an occupation not only operates to increase the scarcity value of a skill. It defines workers in terms of those who are qualified to receive higher earnings and those who are not. In this way, for some, having a degree may be more a passport to higher pay than a necessary condition for the job. To test this, Doeringer looked at the financial rewards associated with additional years of schooling. He found that in Great Britain: “Women receive lower earnings benefits from years of schooling than do men, but this differential is greatest for less well-educated, presumably most disadvantaged, female workers. For example, an additional year of schooling at age 15 is worth £8.62 per week for men, but only £3.81 per week for women” (P Doeringer, “Low paid workers, labour market dualism and industrial relations systems”, Wage Determination, OECD, Paris 1976).

“While education can be important in determining the level of earnings, it is in itself no explanation for the wage inequalities that currently exist”.

This difference can be partly explained by the fact that women, who are still more restricted in their job choices than men by family commitments, cannot themselves be selective when it comes to pay. But Doeringer also found that black males in the United States, like women, received less earnings for each year of education completed than did white males. Thus, the effects of education can be easily outweighed by other more powerful factors such as sex, race and class. The 1981 Select Committee Report on Racial Disadvantage, for instance, noted that in 1974 more than a fifth of ethnic minority men with degree level qualifications were in manual
jobs. So while education can be important in determining the level of earnings it is in itself no explanation for the wage inequalities that currently exist. Layard et al. in their analysis of The Causes of Poverty for the Royal Commission on the Distribution of Income and Wealth estimated that, if all educational disparities were removed, inequality in pay would be reduced by only 7 per cent.

"It's all a question of productivity".

The present Government relies heavily on the notion that pay is related to productivity. Speaking in a House of Commons debate on the subject in March 1983, Mr John Wakeham, a Treasury Minister, argued that: "we are a low pay economy because we are a low output economy and have low productivity growth" (Hansard, 18 March 1983, vol 39, col 454).

It is undoubtedly true that Britain's productivity is generally lower than that of other countries, largely due to a long term lack of investment. As we argued above, low pay itself encourages the underutilisation of resources and discourages firms from investing in training or improved techniques of production. Thus those who argue that we are a low wage economy because our productivity is low, might do well to consider whether our productivity is low because we are a low wage economy. Moreover, arguments related to the overall level of productivity in Britain relative to other countries are not very helpful in explaining the inequalities in pay between different groups in this society. Of course, it is often suggested that those who are low paid must have lower levels of productivity relative to the rest of the workforce.

Here again, orthodox economists have provided theoretical justification for the notion that people are paid 'what they are worth'. Wages are said to be equal to the marginal product of labour (that is the amount which each additional worker contributes to total output). From this it follows that any attempt to increase the wages of low paid workers, or to establish minimum standards which are higher than the level set by 'the market' - and determined by workers' productivity - will simply force workers out of jobs. Yet the marginal product of labour - as orthodox economists recognise - is something which cannot be measured. So many take it as an act of faith that, whatever the wage, this is the marginal product.

Such an assumption rests on the belief that the market is operating in a state of perfect competition, without monopolies or trade unions, taxes or subsidies and in which employers and workers each have omniscient knowledge and unlimited mobility. Under these circumstances, the wage may indeed equal the marginal product of labour, and an artificial wage increase may lead to unemployment. But such circumstances are rare. If workers have incomplete knowledge about other opportunities, have limitations on their mobility, or simply have no alternative but to work for a particular employer, the wage offered is likely to be well below the 'marginal product' of their labour, and a wage rise would have no effect on the numbers employed.

The notion that wages equal some fixed marginal product also implies a rigidity in wage determination which simply does not exist. In any industry or occupation there are a wide range of different rates which are paid to workers of similar skill levels.

The purpose of the Equal Pay Act 1970 was to eliminate some of the more obvious discrepancies in pay, and its implementation did not lead to female unemployment as a result. Moreover, both trade unions and past governments have been able to influence wage levels over the years through collective bargaining and incomes policies. At least one group of workers which once ranked among the lowest paid, the miners, is now near the top of the manual earnings league.
"Most of the low paid are women, working mainly for pin money"

As we have seen, the majority of the low paid are women. Half of all women workers, and approximately three quarters of all female manual workers, earned low wages in 1982. Moreover, the depth of low pay is greater for women than for men. In April 1982, nearly 10 per cent of all full-time adult women had earnings which were less than £60 a week, compared to less than one per cent of full-time men.

But although most of the low paid are women, low wages are no less a cause of poverty. The importance of a second breadwinner to family income has already been noted. Since 1951, the economic activity rate of married women in Britain has more than doubled, a feature which was noted and explained by the OECD in their report on Equal Opportunities for Women: "The increasing participation rates of married women with husbands present ... suggests that, for most families, a single income is no longer regarded as sufficient and that the threshold at which total family income reduces the motivation of both spouses to undertake paid employment is high" (OECD, Paris, 1979, p.33).

"In one out of twelve households in Britain the wife is not the main breadwinner".

In fact in one out of eleven households in Britain the wife is now the main breadwinner, in that her earnings are greater than her husband’s, and in households where the wife’s earnings regularly equal or exceed her husband’s the proportion rises to one in seven (EOC, Seventh Annual Report, EOC 1983). In addition in more than 400,000 households, two thirds of which contain dependent children, married women are the sole wage earners because of their husband’s unemployment (OPCS estimates, 1982).

According to present projections only 8.3 per cent of females and 14.2 per cent of males will not marry in their lifetimes. (L. Rimmer, Families in Focus. Study Commission on the Family, London 1981, p.19). In 1979, two thirds of all households in Britain contained a married couple. But these figures give a false impression of stability. People are increasingly moving in and out of marriage, living singly, co-habiting, and having children outside of marriage. The divorce rate has increased from 3 per thousand married population in 1951 to over 11 per thousand in 1979, and currently about one in four marriages end in divorce (Ibid. p.33) Along with this growing divorce rate there has been an increase in the number of single parent families; from 9.2 per cent in 1971 to 11.9 per cent in 1979. Nine out of ten of these single parents are women.

So it is no longer true (if it ever was) that women’s earnings are of secondary importance to household income. Increasingly women have sole responsibility for maintaining themselves, dependent adults or children. Even in the lowest paying type of female employment – homework – earnings are often a vital part of the family income. As noted by the Department of Employment in a survey of homeworkers published in 1981: "it is worth repeating that many of the more poorly paid regarded their income as essential to the household budget, and placed their emphasis not on the rate of pay, but on the absolute amount which they received. Gratitude for the income, however small, often outweighed any inclination to carp at the rate it is earned. In some households, this dependence on homework earnings was seen as only short to medium term; in others, however, with only one parent or with a low earning husband, the need for extra cash had little prospect of diminishing" (A
Gratitude for even a low wage when it is essential to a household budget may partly explain the reluctance of many low paid women to jeopardise their jobs by complaining too loudly. But a dependence on low pay is no excuse for the existence of low wages — rather, it is symptomatic of the urgency of the problem.

But these arguments aside, there are still important reasons for regarding women's low wages as a cause for concern. Justice and fair treatment for all workers are among them. In order to ensure the full participation of women in both the economic and political life of the country, it is also necessary to ensure that women receive an adequate income for the work that they do — one which is not based on an assumption of female dependency.

How do we explain low pay?

The myths that surround the problem of low pay are supported by very little evidence. However, their effect has been pervasive; even within the Labour Movement there is some hesitation about the need to take decisive action against low pay for fear of the consequences of doing so. We therefore need to be clear about the true causes of low pay before being able to devise the appropriate policy to deal with it or assess the likely effects of such policies.

The orthodox explanations of low pay all have one thing in common. They emphasise the importance of individual characteristics. Their focus is on the supply side of the labour market — how productive are the workers concerned? What education and skills do they have to offer the employer?

We have seen that low pay, like unemployment, falls heavily on certain groups within the population. Women, young people and those from ethnic minorities are all at risk, as are older male manual workers. The orthodox explanations of wage determination lead inevitably to the suggestion that low pay must somehow be related to the individual characteristics of these groups — their productivity and their skills. But this argument immediately breaks down if one considers the regional distribution of low pay. The 'depressed regions' with high levels of unemployment also have a higher than average incidence of low pay. Scotland, Wales and Northern Ireland are both high on the UK league table of low pay. Within England, Cornwall, the West Midlands and East Anglia are all low wage regions. And within each region, the more deprived 'inner areas' of our cities contain a disproportionate low pay problem. If we were to persist with explanations based on the characteristics of individuals and the labour supply, we would have to assert that these parts of the country harboured a disproportionate number of individuals with low productivity, skills or training. This is clearly absurd. As the Royal Commission on the Distribution of Income and Wealth concluded: "Differences between regions in the incidence of low earnings are attributable chiefly to differences in their industrial and occupational structure" (Lower Incomes, Cmd. 7175, HMSO 1978: p.54).

We need therefore to examine the economic and industrial factors operating in the sectors in which low pay is prevalent. The emphasis should be not on the quality of the labour supply, but on the nature of labour demand; on the question 'who pays low wages?' rather than 'who earns low wages?'.
## Low Paid Industries

<table>
<thead>
<tr>
<th>Men</th>
<th>% with earnings less than £90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel and catering</td>
<td>50.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>43.0</td>
</tr>
<tr>
<td>Wholesale Distribution (other than food &amp; drink)</td>
<td>40.5</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>39.2</td>
</tr>
<tr>
<td>Sport and other recreations</td>
<td>37.9</td>
</tr>
<tr>
<td>Educational services</td>
<td>36.7</td>
</tr>
<tr>
<td>Retail Distribution (other than food &amp; drink)</td>
<td>34.9</td>
</tr>
<tr>
<td>National government service</td>
<td>33.9</td>
</tr>
<tr>
<td>Other services</td>
<td>33.3</td>
</tr>
<tr>
<td>Textile weaving and finishing</td>
<td>31.7</td>
</tr>
<tr>
<td>Motor repair, distributors, garages and filling stations</td>
<td>31.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Women</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hairdressing and manicure</td>
<td>96.3</td>
</tr>
<tr>
<td>Hotel and other residential establishments</td>
<td>89.4</td>
</tr>
<tr>
<td>Clothing</td>
<td>87.4</td>
</tr>
<tr>
<td>Educational services</td>
<td>87.4</td>
</tr>
<tr>
<td>Distributive trades (non manual retail distribution = 81.9)</td>
<td>83.1</td>
</tr>
<tr>
<td>Catering Contractors</td>
<td>82.9</td>
</tr>
<tr>
<td>Textiles (non manual textiles = 77.1)</td>
<td>81.9</td>
</tr>
<tr>
<td>Other manufacturing industry</td>
<td>79.1</td>
</tr>
<tr>
<td>Motor repairers, distributors, garages and filling stations (non manual)</td>
<td>78.8</td>
</tr>
<tr>
<td>Medical and dental services</td>
<td>77.0</td>
</tr>
</tbody>
</table>

*Source: New Earnings Survey, 1982 Part C*

The table above shows the industries in which low pay is most prevalent. The private service sector stands out, including hotels and catering, laundries, hairdressing and retail distribution. In manufacturing, textiles and clothing industries dominate the profile of low pay. Agriculture has, traditionally, maintained a position high on the list of low paying industries, and is still near the top. How are we to explain the concentration of low pay in these sectors?

The first thing to notice about these industries is that they are the sectors covered by wages councils, to which we referred earlier. Although the councils were established as a means of protection for generally unorganised groups of workers on exploitatively low wages, they appear to have done little to improve the relative position of the workers in these sectors. As we have noted, the minimum rates of pay established by the councils (and in the case of farming by the Agricultural Wages Boards) are low in comparison to negotiated rates of pay in other sectors, and the...
level of illegal underpayment is high. There is evidence, however, that the wages councils have performed an important function in preventing the workers in these sectors from falling further behind the rest of the workforce. (C. Craig et al, op cit)

Institutional factors such as the failure of the wages councils to fulfill their original objectives, are not however, sufficient explanation for the persistence of low pay in these sectors. There is first the importance of industrial structure: the industries concerned are generally dominated by small firms. As the Bolton Committee on small firms established, the level of earnings in this sector tends to be lower than in industry generally. This is partly because of the difficulties of organising workers into unions where they work in small and often scattered establishments: union recruitment is costly and time consuming. Moreover, as the Commission on Industrial Relations found, small firm employers are often openly hostile to the idea of interference by trade unions. In industries such as catering, where over 90% of firms have fewer than 20 staff, trade union organisation is unlikely to ever be very widespread; in 1980, only 6% of all catering workers were in unions (Counter Information Services, Hardship Hotel, 1980).

The second explanation for low pay in these industries is related to the economic environment in which they operate. Because the firms concerned are normally small they are also highly competitive. No single firm has control over the price of its goods in the market, or the amount which it can produce and sell. There is therefore a need to keep costs as low as possible – and since these industries are often labour intensive, using older technology, wage costs represent a large proportion of the total. This means that firms must keep wages as low as possible in order to compete.

It may be argued that, in these sectors, low pay is inevitable. Firms will never be able to afford to increase pay for fear of going out of business. From the point of view of each individual firm this is true. No single employer can raise wages, or indeed invest in training or better techniques, for fear of being undercut by his competitors. But if all firms were subject to the same minimum standards on wages, established by law (through the wages councils or a national minimum wage) or through an effectively enforced industry-wide trade union agreement, all would be competing on the same basis. Wage undercutting would be prevented, and some stability of employment maintained. This is an argument to which we will return.

The concentration of low pay in these sectors of industry helps us to explain why there are certain groups within the population – women, young workers and ethnic minorities especially – who bear a disproportionate burden of low pay. Such groups within the workforce have few other opportunities for employment and thus form a readily available supply of cheap labour for low paying industries. Discrimination against ethnic minorities and women can mean that even highly qualified workers may have to resort to low paid jobs with few prospects. Married women’s disproportionate domestic commitments may also preclude their full participation in employment: they are often forced to work part-time or as homeworkers, or to take jobs in which the seasonal nature of the work allows withdrawal from the labour market when children are away from school. Young people too are restricted in their employment opportunities when first entering the labour market. In order to gain experience they often need to take low paying jobs in industries such as catering or retailing before being able to apply for more remunerative work elsewhere. These workers are relatively excluded from the primary labour market (in which wages are higher, jobs secure and promotion prospects good) and pushed into the
secondary, low paid sector.

As women form the large majority of the low paid, the reasons for their labour market disadvantage should be given particular attention. From early times, women's work has been characterised by certain features: "These include, a lower woman's wage, a family wage, some measure of sexual segregation by trade and within trade, some measure of exclusion by labour organisations, as well as the persistent association of women with low pay and low status or ancillary work roles" (Jane Kendrick, "Policies and the construction of Women as Second-Class Workers" The Dynamics of Labour Market Segmentation, Ed. Frank Wilkinson, Academic Press: London, 1981).

"Those industries which have employed a majority of women have taken advantage of women's domestic role, their lack of property and the notion of a single-breadwinner family".

In general, those industries which have employed a majority of women have taken advantage of women's domestic role, their lack of property and the notion of a single-breadwinner family. Making use of their domestic role; farming out work to women at home as the need arose was a cheap way to meet fluctuating demand for products in such industries as clothing and textiles. Because historically women were prevented from owning property, certain jobs which provided room, board and low wages (for example in the teaching and nursing professions, and in domestic service) became designated as women's occupations. With limited access to "skilled" employment traditionally under the control of male trade organizations, women's labour acted as a reserve which could be tapped as the need arose in, for example, seasonal agricultural work. Here again, women's labour was doubly cheap for being considered less essential to family survival than the male wage. Moreover, while the sexual segregation of occupations has been great, these divisions have been flexible where there has been a scarcity of labour.

In recent years the growth in tertiary service sector, employment has increased demand for female labour. Women's work has traditionally been concentrated into certain service occupations; among them cleaning, catering and the "caring" professions of nursing and teaching. In the early twentieth century, as business grew larger and the task of administration grew in importance, women were brought into office employment as clerical workers. In this way, the lower grade jobs of typist, secretary, telephonist and clerk also became women's occupations. The expansion of consumer services and office work of all types has therefore opened employment opportunities for women in traditional, "unskilled" and "semi-skilled" occupations.

The fact that women are more likely to fall under the categories of semi- or unskilled is often given as an excuse for women's low wages. It is important to note, however, that such categories are socially constituted and do not always reflect an 'objective' measure of job content. Hence, at least one of the reasons for women's concentration in lower skilled occupations is that the jobs themselves are considered less skilled because women do them. Related to the lower status generally assigned to 'women's jobs', the wages paid for 'women's' work are usually lower than those in male sectors of employment. Evidence of this was found by Craig et al in their survey of employment in the paper box making industry where "employers defined skill by the lightness or heaviness of the work". (Employers) argued that women in the box side of the
industry undertook work of a much lighter nature than any man would expect to undertake. Where women work alongside men in the more mechanized sections they are employed on similar, and by definition more skilled, work. However, several of the employers interviewed felt that female occupations in the box trade required a certain degree of skill, certainly more than that needed by machine assistants in mechanized production. One employer, now only making cartons, described the skill required by his female employees as ‘trivial’ compared to that required in box making... (because) most skilled jobs in box and carton making are undertaken by men, male jobs are likely to be higher rated than women’s, not necessarily because they are more skilled but because they are traditionally male occupations” (Craig, C., et al. Abolition and after: the Paper Box Wages Council, Dept of Employment Research Paper no 12, June 1980, pp. 24-25).

Women have formed a ‘reserve’ army of labour which could be used by employers during times of labour shortages. Jobs which have become ‘feminized’ in the process—such as that of typist—have grown to be viewed as unskilled and have fallen behind male earnings levels. Furthermore, the existence of a relatively cheap source of labour has meant that employers who wish to undercut wage rates in areas where unionization is poor have been able to compete on that basis, hampered only by whatever minimum wage protection might apply in their industries.

Not all employment sectors with high proportions of low wage competition of low paid workers, however, face the economic constraints described above. Referring back to the league table of low paying industries, we see that the government itself, as well as local authorities, are important employers of low paid labour. In this case it is less a question of the employer’s ability to pay, than of the availability of vulnerable groups at low rates of pay.

There are certain occupations which command low wages no matter in which industry they are located—cleaners, catering staff, security guards, and lower grade clerical workers are all examples. Even where the industry or firm concerned is highly profitable, or where it operates in the public sector, such jobs are almost always low paid. The reason, of course, is that employers are in a powerful position in relation to their potential workforce, who have few other employment opportunities. If the low paid workers were better unionised, the imbalance between employer and worker might be reduced and wages increased; but even where unions are well established (as in the health service), the relative power of the employer is such that the unions are unable to make significant improvements in the position of the low paid workers they represent.

Under such circumstances, the prospects of increased union membership as a means of improving the position of the low paid are not optimistic. Certainly, the level of unionisation might be increased if unions pooled resources, to provide additional assistance to those trying to recruit in low paying sectors. A Trade Union Development Fund, described below, would help. But substantial improvements in pay are not likely to come in the near future through such an approach. The low pay problem requires more immediate action.
4. Low Pay: Labour’s Response

We have seen that low pay affects almost a third of the adult workforce, that it is a major cause of poverty, injustice and economic inefficiency, and that the Thatcher government has made matters still worse. Chapter 3 sets out the causes of low pay. An understanding of the factors that underpin the problem of low pay is important in deciding what action must be taken to deal with the problem. If the orthodox theories of wage determination are correct, with their emphasis on individual productivity, then trade unions and government cannot intervene to raise wages directly without risking an increase in unemployment. They should instead concentrate on attempts to improve labour productivity through education and training, But if low pay is due to economic industrial factors described above, direct intervention is not only possible without the dire consequences often predicted, it is essential.

Using this as our foundation, what should be the response of the Labour Party and the trade unions to the growing problem of low wages? There can be little doubt that voluntary collective bargaining would be the most satisfactory way of establishing minimum terms and conditions at an acceptable level. However, as we have seen in some sectors there are obstacles to the extension of voluntary agreements on wages and standards. Union membership has certainly increased since the war: in 1948 it is estimated that 45.2 per cent of the workforce were unionised: despite recent declines in membership due to increased unemployment, the overall level is now thought to be almost 52 per cent. But in the private service sector unionisation remains stubbornly low. at less than 17 per cent of the workforce (compared with 14.5 per cent in 1948). (R. Price and G S Bain "Union Growth in Britain: Retrospect and Prospect", British Journal of Industrial Relations; March 1983). In order to reach the low-paying, non-unionized sectors, as well as to underpin those industries in which improvements have been painstaking and are continually eroded, one option which has been proposed is that of a national minimum wage. Although there is considerable support within the Labour Party for the idea of a national minimum, it would be quite unacceptable for a future Labour Government to seek to impose a minimum wage by its own initiative. Under such circumstances the minimum could be seen to undermine the collective agreements already established by unions in some sectors. For this reason the initiative must come from the trade unions. Indeed, any form of minimum wage machinery which did not fully involve the trade union movement would be unworkable.

Within the trade union movement support for some form of national minimum wage, though far from universal, has been steadily growing. The idea of a Minimum Terms and Conditions of Employment Act has recently been proposed by David Basnett (The Future of Collective Bargaining, Fabian Society, 1982) who has suggested that ‘For the low paid, any incoming Labour Government will need to look, with the trade union movement, at the operations and efficiencies of wages councils, and at the reinstitution of a more effective system of Schedule 11 for workers outside wages councils.’ He also proposed that such an examination ‘reopens the question of
statutory minimum earnings levels.

Towards the end of 1982 the TUC issued a Discussion Document to affiliated unions calling for their views as to the best means of tackling low pay. The Document admits candidly that it is thirteen years since the last comprehensive review of trade union policy on low pay, and that in the last exercise it was agreed to see what progress could be made through the traditional collective bargaining approach. The Document also acknowledges that the success of this approach had been disappointing, and that there are very real constraints to trade union action in dealing with the problem. For these reasons the Discussion Document goes on to raise the question of whether trade unions should campaign for the establishment of a national minimum wage.

In 1974/75 the TUC adopted a minimum wage target equivalent of two-thirds of average male manual earnings. Such a target should once again be actively pursued by trade unions. The TUC target did achieve a measurable improvement in the relative earnings of the low paid. Unionised groups of low paid workers, such as those in the NHS, local authorities, some shop and clothing workers, achieved basic rates at the level of the £30 minimum wage target. If the target were to be reintroduced today at the equivalent level (two thirds average male earnings) it would stand at our definition of low pay of £90 a week, or £2.25 an hour. Yet as we have seen, most public sector workers as well as those in retailing and clothing have had to settle at basic rates well below this level. Much ground has been lost by the low paid in the past few years.

But even if one target were effective and established in well organised sectors, employers running non union firms (which still exist in almost all industries) would continue to benefit at the expense of their better organised competitors. Statutory backing is therefore essential in order to make a minimum wage work, and to prevent it being undermined by low wage employers. The Labour Party should therefore be prepared to make a commitment to the TUC that a minimum wage target established through negotiation in better organised sectors would receive legal backing from a future Labour Government. A Labour Government of course would also need to be prepared to observe the target with respect to public sector employees, and to make available the necessary resources to achieve this.

As we have seen, the TUC minimum wage target equivalent to two-thirds of average earnings for male manual workers coincides with the levels derived by differing definitions of low pay, adopted by official bodies such as the Royal Commission on Income Distribution, and the NBPI. It is also roughly equivalent to the Supplementary Benefit/Family Income Supplement eligibility levels of a two child family. Moreover, the TUC target corresponds to the level of earnings described as a 'decency threshold' by the Council of Europe against which Government's success in fulfilling their commitment to provide "a reasonable standard of remuneration" is measured.

The two thirds figure is therefore an appropriate target for a statutory minimum wage; the speed with which the target is reached (within a specified time limit of three to five years) would be for union negotiators to decide in the light of circumstances in their own sectors of industry. Given the depth of the low pay problem in some sectors, however, it may not be realistic to attempt to impose a statutory supported minimum wage at the two-thirds level immediately. For this reason a legal guaranteed minimum wage set initially at a somewhat lower level than the two-thirds negotiating target, or half average earnings, might be more appropriate. The level of the guaranteed minimum would then be determined each year by negotiation with a body such as the proposed new National Planning Council.
or strengthened National Economic Development Council acting as a forum for such discussions. In this way the progress made by unions in establishing improved standards in the organised sector would help to lift those of the less well-organised. Even a guaranteed minimum set at a low level would affect a significant proportion of working people. For instance, a minimum equivalent to about half average male earnings (£75 to £85 in 1983 or around £2 an hour) would have an impact on the earnings of almost an eighth of the full-time adult workforce and would still be higher than most current wages council rates. But while a low minimum wage would undoubtedly bring some protection and perhaps improvement to the most vulnerable workers, in the long term it would not provide a solution to the problem of low pay. For this reason, the goal must be to bring the guaranteed minimum up to the two-thirds target level (equivalent to £90-£95 a week or hourly £2.30 in 1983). This intention must be built into the programme to avoid the maintenance of divisions between workers, and particularly between men and women (who would be most affected by the guaranteed minimum).

**Wages Councils**

Some would ask, do we need a national minimum wage when we have wages councils? Sadly the failure of the wages councils to tackle low pay is obvious. However, they do provide a ‘safety net’ protection for vulnerable workers who would be otherwise worse off. A national minimum wage would go beyond the wages councils in tackling low pay. Many low paid workers are not covered by the industry-based wages councils, and the rates set are only sufficient to prevent the very worst excesses of low pay. Moreover, the negotiations for a national minimum wage would be on a different basis than they are for wages councils. Workers representatives would be acting together on behalf of all workers, instead of separately representing workers in different industrial sectors. Because there would be a single minimum rate of pay which everyone would know, underpayment would almost certainly be much lower than is the case with the wages councils – which set several hundred different minimum rates. The establishment of a national minimum wage would therefore mean the end of the wages councils – at least in respect to their role of setting minimum rates of pay. But the councils might perform a valuable role in dealing with low pay in those sectors of private industry where the problem is greatest during the transitional period towards a national minimum wage. For this to happen they would need to be substantially improved.

The level of illegal underpayment of wages council minimum rates is now endemic, with over 40 per cent of firms inspected underpaying each year. This underpayment could be reduced by rationalising the system, merging wages councils operating in the same industries, simplifying their wage structures and providing much less complex wages orders. This would provide the basis for enforcement of orders through workers own knowledge of their rights, probably the most effective system of regulation in sectors where the level of unionisation is low. But deliberate underpaying also needs to be tackled. This requires a doubling of the existing number of inspectors to ensure an inspection ratio of at least ten per cent of firms annually. Where possible, wages councils should be converted into Statutory Joint Industrial Councils (SJICs); bodies with the same structure and objectives but without the involvement of Independent Members. Where conciliation and arbitration is required this should be provided by ACAS. But minimum wages on their own,
would not be sufficient to establish a fair distribution of earnings, although we believe they should represent the centrepiece of a more comprehensive strategy. Measures are needed to underpin trade union action in other ways, encouraging the extension of voluntary collective bargaining. The possibility of establishing a Trade Union Development Fund made up of graduated contributions from all affiliated unions together with a contribution from the Exchequer should be considered by the TUC and the Labour Party. The purpose of the Fund would be to provide additional resources for unions attempting to increase membership in low paying industries where unionisation is low and where recruitment is particularly costly in terms of resources. Trade unions themselves should, of course, give priority to improving the relative position of their lowest paid members, even after implementation of the minimum wage.

It would be possible, of course, to tie eligibility for a national minimum wage to trade union membership in the way of countries such as Belgium. This would have the benefit of stimulating recruitment and efforts to gain recognition in unorganised firms. But in many low-paying firms, particularly among small employers, obstacles to organisation are such that limiting statutory protection to firms covered by collective agreements would still exclude the lowest paid. An alternative model, contained in a bill presented to Parliament in April by Michael Meacher, MP could overcome this. Under the Fair Wage Bill it would be mandatory for employers to negotiate with employees in order to achieve the target national minimum wage within a period of two years. By placing the onus on the employer to enter into negotiations with staff, a national minimum wage along these lines might extend union membership into sectors where it has in the past been non-existent.

**Fair Pay, Equal Pay and Tax**

In addition, fair wage protection needs to be re-introduced in order to guard against undercutting of collective bargaining and prevent a bunching of wage rates at the level of the statutory minimum. Schedule 11 of the 1975 Employment Protection Act, repealed in the 1980 Employment Act, together with the recently abolished House of Commons Fair Wages Resolution embodied a common approach to the dual problem of unfair competition and low pay. The extent to which these measures were able to combat low pay was limited both by their aims and structure but, for many low paid workers, they did constitute an effective mechanism through which to ensure improvements; 90 per cent of successful claims were made on behalf of workers with earnings below the average.

The reintroduction of measures such as Schedule 11 and the FWR are necessary but improvements in their scope and effectiveness are essential. The FWR applied only to central government employees (although local authorities and other public bodies have applied their own fair wages clauses). One possibility, therefore, is for the two measures to be reintroduced as a single ‘Fair Wages law’ applicable to all workers.

Any strategy aimed at tackling the problem of low pay must directly address the issue of women’s pay. Because the majority of the low paid are women, a national minimum wage would have its greatest impact on women’s wages—particularly in areas such as homeworking where wages are so far below the factory rate for the job. Reform of the wages council system, (under which three-quarters of workers covered are female) will also be of most benefit to women. Most crucially, because women’s employment is concentrated into poorly unionized sectors such as retail distribution, hairdressing and catering, policies which stimulate union organiz-
ation or underpin recruitment (such as a Trade Union Development Fund, and employment protections which enhance job security) are urgently required to promote women's participation in trade unions.

But other measures are also needed to help women move off the bottom of the earnings ladder into better paid jobs and industries. Action therefore must be taken to attack the root causes of women's disadvantaged position in the labour market, in particular addressing the question of women's role in the home. Facilities to enable both parents to raise children and work, such as extended maternity and paternity leave, parental leave for children's illnesses, the right to work shorter hours and access to better paid and more responsible jobs on a part-time or job-sharing basis would do much to widen both women's and men's job choices. Along with this, better and more universally available day care facilities for children provided where possible at the place of work, are desperately needed. In addition there must be a strengthening of the existing equal pay and sex discrimination legislation to combat discrimination in pay and employment, and to allow for positive discrimination aimed at bringing more women into traditionally male sectors. Labour market policies concerned with training and job creation must also specifically target women, and must build in incentives for both men and women to take up non-traditional employment.

"Taxation has become a major cause of poverty for many of the working poor".

These types of policies would compliment the improvements in women's labour market status which a minimum wage would bring. At present the traditional sexual division of responsibility for childcare is reinforced by the fact of women's low wages. Because a male wage-earner can usually earn more, where a choice is made of one partner to take on the burden of child care at the expense of employment, finances often dictate that it is the woman. By increasing women's earned income, such choices will be less constrained.

All these measures would help, as a comprehensive package, to improve the relative earnings of the low paid. We should not forget, however, the need for improvements in the social wage: the provision of improved public services, an adequate level of child benefits, improved social security benefits to provide protection against poverty during periods outside the labour market. As we argue, these measures should not be seen as substitutes for a policy designed to tackle low wages themselves, but they are essential complements to such a policy. So too is a radical reform of the tax system. Taxation has become a major cause of poverty for many of the working poor, and changes are urgently needed to ensure the establishment of a progressive system of taxation. In particular, changes are needed to overcome the discrimination between men and women in taxation. This is not the place for a detailed discussion of these elements of the strategy against inequality, although their omission should not be interpreted as a suggestion that they are of lesser importance. Readers who wish to pursue these questions will find them dealt with in detail in the publications of the Low Pay Unit.

**The Effects of Minimum Standards Policies**

Understandably many people are concerned that the introduction of minimum standards, especially on pay, could have significant effects on employment, inflation and differentials. Some argue that, because of such possible difficulties, it
would be better to use the social security system to alleviate the poverty arising through low wages, rather than to try to intervene directly.

It would be quite wrong to assert that difficulties would not arise from a minimum wage. They are the price that must be paid for tackling low pay itself and, unless we are prepared to allow low wages to continue to disfigure the lives of many millions, we must be prepared to deal with them. But the problems themselves are not insuperable, and they should not be exaggerated.

"What would happen to differentials?"

Raising the wages of the low paid inevitably involves questions about the impact on differentials. There is no escaping the fact: if we are to achieve an improvement in the relative position of the poorest workers – an objective with which few would be prepared publicly to disagree – this must imply a reduction in the relative earnings of other better rewarded groups. Those who argue against proposals for a national minimum wage on the grounds that it would narrow differentials must logically apply the same objection to any measure, trade union action itself included, which would improve the position of the low paid in relative terms. All that distinguishes the minimum wage approach from a number of other measures is that it is more likely to be effective in achieving the objective. So there is a dilemma: a policy which resulted in ‘jacking up’ the entire wage structure would be self-defeating, leaving the low paid no better off in relative terms; however, there is a need to ensure that justifiable differentials are not eliminated.

It is necessary first to try and assess the likely impact on differentials. We noted above that low pay is often concentrated in industries where earnings generally are low. In these circumstances all workers require an improvement in earnings and differentials between grades may not be unnecessarily disturbed. In other industries, low pay is confined to certain occupation groups (often cleaners or catering workers) who are not presently part of the internal wages structure. Their wages are often determined by unilateral management decision, or by a wage agreement external to the bargaining arrangements of the plant or firm itself. Here the need is to integrate such groups into the internal bargaining structure in merging the rates. Because such jobs are rarely subject to job evaluation exercises the low wages attached to them are more the result of their isolation from the internal bargaining process and the vulnerability of the workers concerned than from any considerations of their relative worth. If they were to be brought into the internal bargaining framework, it might generally be accepted that the jobs themselves were of sufficient value to grade them alongside other positions on the internal grading structure.

The question of differentials should not, however, be discussed solely in terms of the differences in reward between manual or clerical grades. It is often asserted that ‘the miners’ must be prepared to give up some of their gains to help ‘the nurses’. While there has been increasing evidence of solidarity between workers at different points on the wage hierarchy, the real inequalities in wages are to be found elsewhere. Although the highest income groups often seem to have an insatiable appetite for still further rewards, it is doubtful that judges, top civil servants, estate agents or top managers could justify demanding equal percentage increases to those achieved by shopworkers or farm-workers as the result of the introduction of a minimum wage. There would almost inevitably be some reduction in these wider relativities, a reduction which would represent a necessary move toward a fairer distribution of rewards.
The Department of Applied Economics, in their examination of the likely effects of a national minimum wage were not convinced that the differential effects (reflecting themselves in demands for higher wages by other groups) would be excessive: "the aim of minimum wage protection would be to ensure that no-one is paid below some minimum socially acceptable level of wages. In general people do not have a notion of customary differentials, vis á vis low paid workers, and indeed most are probably unaware that anyone is paid at such low levels". (Craig et al., op. cit., p. 132)

While the possible effects on differentials should be kept in perspective, complacency is not appropriate. There will inevitably be some narrowing of established differentials, and care is needed to minimise the possible disruption to wage structures. Trade unions can take a number of measures to ensure minimum disruption. Unnecessarily long pay scales might be shortened, for instance, and the newly reformed 'fair wage law' proposed above would allow additional flexibility in pursuing fair rewards above the minimum. Moreover, as John Edmonds and Giles Radice argued in an earlier Fabian pamphlet: "Differentials would be squeezed, but if job evaluation were used to identify those which were justified, savings would be made in the right directions and a much needed reform of wages structures would be encouraged". (John Edmonds and Giles Radice, Low Pay, Fabian Research Series 270, 1969)

Such adjustments obviously will take time, and this is why we have proposed a phased introduction of the minimum wage, on the model of the Equal Pay Act. One of the attributes of a negotiated minimum wage, of the type suggested here, is that unions can take account of the need to minimise disruption to wage structures in setting the minimum rate. The most important element, however, is a commitment on behalf of trade unions to accommodate the necessary changes and, where appropriate, to explain the need for such changes clearly to the membership. A willingness to do this is already evident in many areas. The 1983 pay claim submitted jointly by the civil service unions, for instance, includes the demand of a minimum basic rate of £85 together with smaller percentage increases for higher grades. Similar developments have taken place in recent local authority negotiations.

"But surely, prices would go through the roof?"

A discussion of the effects of a minimum wage on differentials leads inevitably to consideration about the impact on price levels; for the more that differentials were maintained, the greater would be the increase in wage costs. What are the likely effects?

"A total increase in the wage bill of between five and eight per cent?"

Professor David Metcalf has estimated that the direct cost of raising all adult workers up to a figure equivalent to two-thirds average male earnings would be equivalent to three per cent of the nation's wage bill. Professor A.B. Atkinson and his colleagues have put the likely cost at slightly less than five per cent of the wage bill (A B Atkinson et al., Who are the low paid?, Low Pay Unit, 1982). The full cost will depend on the extent to which differentials are maintained. Studies carried out in Canada suggest that the indirect costs of minimum wage increases represent about 60 per cent of the direct costs, which would imply, on the basis of the estimates by Atkinson and Metcalf, a total increase in the wage bill of between five and eight per cent (International Labour Office, Mini-
imum Wage Fixing. 1981). More pessimistic predictions were contained in the Department of Employment and Productivity’s examination of the feasibility of a national minimum wage published in 1969. The Department calculated that the cost of implementing a minimum wage at an hourly rate equivalent to two thirds average male earnings would be 6.7 per cent of the national wage bill if the increase were confined only to those previously below the minimum. If those just above the minimum received equivalent increases, the Department estimated, the cost would rise to 7.5 per cent of the wage bill. And if everyone received the same increase, the cost would be equivalent to 15 per cent of the wage bill. (Department of Employment and Productivity, A National Minimum Wage, HMSO, 1969).

The Department’s investigation has been criticised for its extreme pessimism, and as we have argued above, it is unlikely that all wages would adjust fully in response to the introduction of a minimum wage. The safest assumption seems to be that the increase in the wage bill would be of the order of up to ten per cent (probably less), although the increase in particular industries would be greater than this.

What would be the effect on prices in the shops? The first point to remember is that wages are not the only element in employers’ costs, so that only part of any increase in wages needs to feed through into prices. On the assumption that the total wage bill were to increase by ten per cent as the result of the introduction of a minimum wage, and assuming that wages represent two thirds of total costs (in many industries they are very much less than this), then the increase in prices necessary would be of the order of six per cent. Moreover, there are likely to be offsetting factors which reduce the price effect still further. Some firms may be in a position to absorb at least part of the increase in wage costs through reduced profit margins. This is especially the case where low wages are paid not because of the employer’s financial inability to pay more, but because the workers have no alternative opportunities for employment. Similarly, increases in wages might be accompanied by improvements in productivity which actually reduce, rather than increase, unit labour costs. As the International Labour Office has explained: “As exceptionally low wages are raised, there may be increases in productivity either because of induced management improvements or greater labour efficiency due to a decrease in wasteful labour turnover and industrial disputes and to improvements in workers’ morale...” (ILO, op cit).

It is also necessary to clear up two common misconceptions about the price effects of a minimum wage. The first is the suggestion that the introduction of a minimum wage would cause ‘inflation’. It should be remembered that a minimum wage would represent a once-and-for-all increase in the earnings of the low paid (subject of course to the period of phasing-in) whereas inflation represents a continuing process of accelerating price rises. The two should not be treated as synonymous. Second, there is the frequent assertion that a minimum wage would be self defeating, since the resulting increase in prices would absorb the increased wages, leaving the low paid and others with no real increase in their income at all. As we have noted above, however, only part of the increased wages would feed through into prices, while the low paid would receive the full benefit of the minimum wage increase. Meanwhile, higher income groups would benefit little, if at all, from the minimum wage increase, but have to pay the resulting increase in prices. The process, overall, would result in some measure of redistribution of real incomes toward the low paid.

“It’s no good talking about higher wages when three or four million people are unemployed”.
Many people consider it irresponsible to consider tackling low pay at a time of mass unemployment. The priority must be to make sure that people have jobs—any jobs—before worrying about the level of wages. Such beliefs are understandable; but the choice is not quite as simple as this. There is little evidence that the maintenance of low pay will help to contain the growth of unemployment. Indeed, as we argue below, each problem feeds on the other. Moreover, to tolerate the continuation of low pay until unemployment is dealt with is to accept the current Tory philosophy that sweatshop employment is a satisfactory alternative to the dole queue. There is a danger in treating low pay and unemployment as qualitatively different phenomena: many of the low paid have net incomes as low (sometimes lower) than the unemployed; the psychological and health implications of working in low status and hazardous employment can be similar to those experienced by the unemployed. This is why we have argued that low pay and unemployment must be seen as part of the same continuum of labour market disadvantage (Chris Pond, Low Pay and Unemployment. Review no 2, Low Pay Unit, 1980).

The belief that any increase in wages will automatically lead to a reduction in employment is deeply rooted, yet it rests on a very tenuous assumption. This is that workers are low paid because their productivity is low—any increase in wages will therefore make it unprofitable for employers to retain labour. As we have seen, many of the low paid are highly productive (those working in hospitals and schools are good examples) but are paid low wages because they have few other opportunities, or because the jobs they do are simply low status. It is only when such workers withdraw their labour (as in the recent NHS dispute, or the earlier ‘Dirty Jobs’ strike) that their true worth to the functioning of the economy and society are recognised. In these circumstances, an increase in wages need not lead to unemployment (Craig et al. op cit. p. 137/8).

A common assertion is that small firms would simply go out of business if a minimum wage were introduced. As we noted above, many small firms find themselves in a competitive spiral of wage-undercutting, from which none individually can escape, and which sometimes result in firms going out of business altogether. To impose a minimum wage on any one of these firms individually would indeed create severe difficulties for its survival. But if a minimum wage is applied across-the-board to all firms, the effect is to break through this spiral of wage-undercutting, providing some stability and maybe preventing the collapse of some firms who would otherwise be forced out of business. With this stability, firms are able to invest in training of their workforce and better techniques, leading in turn to improved productivity and growth. None of this is possible if matters are left to the unregulated operation of the market. The introduction of a minimum wage could help to protect both jobs and firms, even in the small firms sector.

"Low wages firms tend also to be less productive and efficient.”

Partly because of the effects of unregulated competition, but also because the availability of cheap labour discourages investment in training and improved techniques, low wages firms tend also to be less productive and efficient. For this reason, the ILO has advised that: “If inefficient firms are allowed to continue paying privation wages year after year, they may jog along without attempting to improve their methods; this is bad for the workers and for the economic and social welfare of the community… The point to be emphasised is that trade unions should not be willing to
 tolerate, for any length of time, unsatisfactory wages because of a fear of unemployment. If an undertaking, or even a whole industry, cannot afford to pay living wages, the root cause of that incapacity to pay should be investigated and if possible eliminated". (ILO, Wages: A Workers' Education Manual, Geneva, 1982)

Of course many low paid workers work in industries which are under intense pressure from foreign competition, such as the clothing and textile trades. Here the argument runs that wage cuts are essential to improve competitiveness with foreign producers. But workers in these industries have for many years accepted low wages without this affording them protection against still higher unemployment.

Unless we are prepared to accept wages for workers in Britain at the exploitation levels paid in Korea, Taiwan and Hong Kong, we cannot hope to compete on the basis of wage costs. But wages are not the only element in competition: product design, reliability and quality are all important. And, as many of our high wage competitors have found, improved productivity and efficiency is a better way of reducing unit labour costs than cutting wages themselves. Britain's labour costs are lower than those in our main industrialised competitors: in clothing and textiles, for instance, Italy's costs have been estimated to be 21 per cent higher than those in the UK, while the USA's are 17 per cent higher, West Germany's 15 per cent higher, and Canada's 9 per cent higher. But still we fail to compete (S Crine and C Playford, From Rags to Rags, Low Pay Unit, 1982). Part of the reason is that reliance on low wages has encouraged a lack of investment over the years. Low wages and low productivity are part of a vicious cycle.

On a similar theme, it is often suggested that the introduction of a minimum wage would discourage foreign investment in Britain. There is some truth in the belief that footloose international capital can now travel in search of the cheapest sources of labour. Should we then hope to attract firms to Britain by offering low wages? Such a policy, even if we were prepared to accept it in principle, would be unlikely to offer a long term improvement in employment prospects. Of course some firms seek short-term advantage in the form of cheap labour supplies; but their prosperity is also dependent on having a productive and stable workforce and a buoyant domestic market for their goods.

In the present Government's simplistic approach to economics, as we have pointed out, wage cuts are the only solution to unemployment. Yet the experience of the past four years, as with that of the 1920s and 1930s, shows that such a policy is tragically misguided. Cuts in wages mean that workers' spending power is reduced, and that their ability to afford the goods and services produced by others is cut. The result is still higher unemployment. By contrast, a policy which increased the spending power of the poorest workers would, in the current circumstances of underused resources, result in the creation of jobs, not their destruction. Indeed, as an element in an overall strategy for reflation, a minimum wage could be a most effective way of stimulating demand, without sucking in imports. The low paid are unlikely to spend their additional income on expensive imported consumer durables; they are even less likely to invest the money abroad.

What is the evidence of the employment effects of a minimum wage in other countries? Although there has been much debate recently about the supposed effects of the US minimum wage on employment, the Minimum Wage Study Commission which reported in 1981 found that on average an increase of ten per cent in the federal minimum wage led to an increase in teenage unemployment of just one percentage point. Moreover, as the OECD have pointed out, "when the Commission
staff updated many of these studies they found that the unemployment effect virtually disappeared" (OECD, Meeting of the Manpower and Social Affairs Committee, Analytical Report, 1982). As the OECD also noted, the overall employment effects of the minimum wage would be difficult to discern, since any effect in increased teenage employment through a lower minimum wage might simply lead to higher unemployment amongst adults. In their review of the evidence of the effects of the French minimum wage, similar results emerged. Despite very significant increases in the minimum wage (SMIC) in the past fifteen years (following the 1968 Labour troubles) the OECD concluded that increases in the SMIC have only counted for a very small part of the increase in French youth unemployment" (OECD, op cit.).

Overall, therefore, the evidence does not support the pessimistic predictions popular amongst orthodox economists about the likely employment effects of a minimum wage policy. Indeed, given the lack of supporting evidence, it is remarkable that the orthodox theories have gripped public policy and the public imagination with such force. The fear instilled has been sufficient to paralyse even Labour governments into inaction on the problem of low pay. This is not to say that the introduction of a minimum wage would result in no employment difficulties in some sectors. But these difficulties would not be insuperable, especially given the phasing-in period. Trade unions might, through their negotiations for reduced working hours, be able to channel reductions in employment resulting from an increase in the lowest wages into reductions in the working week. The possible employment effects could be further neutralised if the minimum wage were introduced as part of an overall strategy of economic recovery, of the type proposed in Labour's campaign document.

"Wouldn't it be better to solve low pay through the social security system?"

The possible difficulties associated with the establishment of minimum standards on pay have led some to the conclusion that social security reforms would be a better way of dealing with low pay than attempts to influence wages directly.

The Government argues that, if people consider themselves to be too poorly paid, they should claim Family Income Supplement or other social security benefits. Similarly, the Social Democratic Party in its recent proposals for Attacking Poverty, criticised the Labour Party on the grounds that "the constant hope that poverty in working families could be reduced by raising low pay - either by trade union action or a minimum wage law... is largely an illusion".

Attempts to deal with the problem of low pay by reform of the social security have been tried and failed. In 1970, shortly after the TUC's last review of policy on low pay, the Heath Government introduced Family Income Supplement on which 145,000 families now depend. Under Thatcher the decline in the relative wages of the low paid has led to a doubling in the number of families found to rely on FIS. Partly because reliance on FIS and other such benefits creates stigma, only half of the families entitled to the benefit actually claim it. People want a fair day's pay for a fair day's work; schemes such as FIS only end up subsidising employers who pay low wages. Moreover, means-tested benefits create a 'poverty trap' - an increase in gross pay results in extra tax payments and reduced benefits which leave workers little better off.

The SDP scheme, which they claim would eliminate the poverty trap, would in fact merely distribute it over a wider range of income than at present. The SDP plan is an example of one of the most conserva-
tive forms of negative income tax. The problem with the SDP scheme is that which is inherent in all schemes of its type; it is extremely expensive, and only the very poorest benefit from it at all. Families on incomes of between £45 and £170 would actually face marginal tax rates of over 80 per cent, compared to rates of between 62 and 39 per cent at present. Indeed, for every family which is made better-off by the scheme, ten families would lose out. As with FIS, such schemes also have the effect of subsidising low-paying employers at the expense of the taxpayer. If net incomes are little improved by a pay rise, both employers and employees may spare themselves the trouble of negotiating improvements in wages. The end result is that the scheme accelerates in cost as the labour market adjusts, and none of the benefits in terms of efficiency and improved output which would result from an eradication of low pay itself would accrue.

Proponents of the various models for attacking low pay through the tax and social security systems often point to the simplicity of the model plans as an attraction for those who will be affected by them. The simplicity of an idea, however, does not mean it would be popular in practice. The low paid demand, quite rightly, that the value of the work they do be recognised and properly rewarded. They want a fair wage, not a supplement from the DHSS. Of course, improvements in child benefit and reforms of the tax system are necessary. But these changes must be in addition to improvements in wages themselves, not substitutes for a proper policy to tackle low pay directly.

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5. Conclusion

A central tenet of the Labour Movement has long been a commitment to some measure of redistribution between rich and poor. This implicit aim, however, must find expression in specific and carefully worked-out policies if it is ever to be realised. In this pamphlet we have argued for measures which we believe would make a significant impact on the problem of low pay. Our concern is that the growing problem of low pay is treated with the sense of urgency which it deserves, and is not seen as secondary to other pressing issues. Unemployment, the lack of demand for British products and services and the poor economic performance of many British firms are all related to the fact of low pay; an economy which rests on the low wages of many is not only inefficient but is unable to generate enough demand to stave off further unemployment.

As a solution to low pay, we believe that a national minimum wage would be the most effective option available. One alternative which has found some support, however would be to strengthen and expand the existing system of wages councils, transforming them where possible into statutory joint industrial councils (SJICs). The
wages set by such bodies have the backing of law, but there is not the involvement of independent members (who it is said inhibit negotiations between the two sides) in the setting of rates. Improving the effectiveness of wages councils would entail increasing the number of wages inspectors and improving rates of inspection and prosecution. Low paying industries which are presently not protected by minimum wages, such as launderettes and dry-cleaning, would need to be brought under the protection of wages councils. These are reforms which the Low Pay Unit has argued for in the past, and which would do much to improve the situation for many groups of low paid workers. However, wages councils are only a partial and selective solution. There are pockets of low pay in all industries, which an industry-based system of minimum wages such as the Wages Councils could never reach. Moreover, because each wages council sets its own variety of rates for different grades of worker very few workers covered actually know their entitlements. A national minimum wage, applied universally, would overcome this difficulty, and would be largely self-enforcing.

Many within the trade unions and the Labour Party have been unwilling to make the step to supporting a national minimum wage, largely due to fears about the possible impact on unemployment, pay differentials, inflation and the ability of British firms to compete in a world market. Undeniably, the establishment of a national minimum wage at an adequate level would mean that within some industries and occupations major adjustments would have to be made. A minimum wage set at a very low level would not have the same impact, but then it would do little for the low paid. If we are ever significantly to improve the position of low paid workers we must be prepared for change, and the process is not likely to be easy. But fears about the adverse effects of a national minimum wage fail to understand the nature and distribution of low pay, because of this the costs in terms of employment, price increases and the disruption of legitimate differentials are not likely to be as great as many fear.

In assessing the overall impact, not only the costs but also the benefits of a minimum wage should not be forgotten. A minimum wage would be a powerful means of refuting the economy as a whole, particularly as the low paid are more likely to spend their income on domestic goods and services rather than foreign produced goods or investment overseas. Moreover minimum wages promote economic efficiency by encouraging investment in training and better methods of production, while preventing unfair competition on the basis of wage under-cutting.

A minimum wage should not be seen as an alternative to trade union action and collective bargaining. Many trade unionists fear that a statutory national minimum would be a ‘backdoor’ form of incomes policy, allowing an unacceptable degree of state intervention in the sphere of collective bargaining. Providing a minimum floor for wages is not the same as placing a limit on pay rises. Past incomes policies have done little for the low paid, especially those expressed in percentage terms which only serve to widen the gap in cash incomes between low paid and well paid workers. A national minimum wage is designed to underpin collective bargaining; relativities above the minimum are for negotiators to determine. But as the experience of some of the wages council has shown, any form of minimum wage machinery which does not have the full support and participation of the trade unions easily falls into decline. The model for a national minimum wage which we have proposed would be wholly dependent upon unions negotiation to bring it into force, and afterwards would be subject to renegotiation by the unions on a yearly basis.

The TUC have been considering the re-
inforcement of the minimum wage target equivalent to two-thirds average earnings. The Labour Party should make a commitment to observe the target in the public sector (at least within a specified time limit) and to encourage the private sector to follow suit. In addition to the voluntary minimum wage target, we argue that an across the board guaranteed minimum wage should be established initially at a level equivalent to about half average earnings (about £75 – £85 a week at present). Initially this guaranteed minimum would mainly be of relevance only to less well-organised groups, but the aim would be to bring the guaranteed minimum wage up to the two-thirds target in all sectors over an agreed period of time.

The advantage of this approach is that negotiators would be able to take account of the circumstances in their own industries in deciding the speed with which the target should be achieved. In the meantime a minimum floor would be established to protect the most vulnerable without this floor becoming a ‘ceiling’ for better organised groups. In industries where wages were initially very low and where firms might experience the greatest difficulty in providing improved standards the phasing-in period would allow time for adjustment.

Both during and after the transition period, the reformed ‘fair wage’ provisions we have described would be important in providing an additional element of flexibility, allowing groups of workers to lift themselves above the minima on grounds of fair wage comparison. This flexibility is essential in helping negotiators to minimise the disruption of wage structures and differentials that might arise during the transition. Reformed and strengthened equal pay and sex discrimination legislation together with measures to improve the protection of homeworkers and part-timers, would remain necessary to help break down the existing divisions within the labour market and open new opportunities.

A programme of this sort would be wholly consistent with other aspects of Labour’s Programme. In general, the economic effects of raising low pay would be alleviated considerably if introduced as part of a wider package of measures aimed at economic recovery. Indeed, as we have argued, an increase in the real living standards of a substantial proportion of the labour force would itself help recovery through the increased spending injected into the economy.

While the economic benefits of an effective strategy against low pay are likely to be great, perhaps the most important positive outcome would be the social effects of reducing wage inequalities. Low pay is not only a major cause of poverty, it is a symptom of divisions within our society which have little to do with the productivity or ability of individuals or the value of their work. So long as women, ethnic minorities and other groups who are at a disadvantage in the labour market continue to earn wages which fall so far below the average, they will remain in a disadvantaged position outside the labour market. A minimum ‘participation level’ of income should be the right of everyone, whether in work or out; improvements in the wages of the low paid will also give scope for an increase in the level of social security benefits. Official statistics suggest that the relative position of the low paid has changed little over the past 100 years. Thatcher’s policies have widened wage inequalities and made the problem of low pay still worse. The trade unions and the Labour Party have identified low pay as a priority. What is needed now is a decisive and positive strategy, not only to make good the losses suffered by the low paid since 1979, but also to achieve a real and lasting improvement in their position.
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