Public and Commercial Services Union

**2012 LOW PAY COMMISSION NATIONAL MINIMUM WAGE CONSULTATION: PCS RESPONSE**

Economic Context

The Public and Commercial Services Union (PCS) represent almost 275,000 members predominately in the civil service, related bodies and the private sector. This includes workers on low pay and includes the NMW Compliance Officers in the HMRC.

PCS recognise the success of the NMW and the real difference this has made to workers in the lowest paid sectors of the workforce. We also note the impact this has had on the gender pay gap in the UK and recognise the role this plays in lifting children out of poverty.

Moreover, the government’s economic policy of pay austerity is not working. Exorbitant energy bills, increased travel costs, benefit and tax credit cuts, VAT increases and falling wages have resulted in high levels of personal debt, just to make ends meet. It has also led to weak consumer spending, sluggish demand, and an underperforming economy.
Without increasing wages significantly, we are not able to break out of this destructive cycle.

However, in this time of unnecessary austerity, one section of society has been insulated from the impact. That is the top 0.1% of earners, with company directors in particular continuing to enjoy a huge annual uplift in rewards.

Therefore PCS believe redressing an economic system that enriches a minority by disadvantaging many, promoting social mobility through "aspiration" rather than economic fairness foments division, not cohesion. When some communities are accused of failing to integrate or receiving preferential treatment, the current economic order – with its obscene income differential between the top earners and the rest – remain unchallenged.

We need to challenge this grotesque pay inequality otherwise Britain will be characterised by a profound and damaging economic segregation.

1. PCS and Pay Inequality in the UK

The overwhelming consensus of all reliable research in the field of pay and employment remuneration in the UK is that for the last thirty years the “pay gap” between those at the top of the pay scales and those at the bottom has been widening, and has now reached a level of disparity not seen since Victorian times.

The recent OECD report, ‘*Divided We Stand’*, argues that the wage squeeze and high levels of income inequality are at the heart of Britain’s economic troubles. Polly Toynbee notes in the Guardian (19 March 2012) that the gap between the income of the top 10% and the bottom 10% has multiplied 14 times in the last 25 years.

Over the last three decades, an increasing share of national income has gone to bankers and business executives. The diminishing share of GDP going to workers has led even the IMF Managing Director to acknowledge the need for strong trade unions and policies that increase the share of national income going to workers.

The widening wages gap has been worsened by cuts in benefits and tax credits as low incomes fail to keep pace with the rise in earnings. With the obscene income differential between the top earners and the rest, PCS believes we urgently need to increase pay at the bottom.

Recent research by the High Pay Commission found that the top 0.1% of earners now command 4.5% of the national income, which could expand to 14% by 2030 if current trends continue. Looking beyond simply income to actual marketable wealth, the richest 1% of the UK’s population now own 21% of marketable wealth, whilst the bottom 50% own just 7% of the wealth (and if the value of their houses are removed, that figure stands at a mere 1%).

TheHigh Pay Commission report, *More for Less*, shows that the FTSE 100 Chief Executives are currently paid 145 times the average wage – or £3.7m. By 2020 this will increase to 214 times the average. The report also finds that last year (2010) top executives saw their salary increase by an average of 3%, whilst salary for the rest of the UK workforce barely rose at all, at an increase of 0.1%.

A TUC Touchstone report, *Britain’s Livelihood Crisis,* provides a comprehensive analysis of the decline in wage share of middle and lower income earners in the last thirty years. It finds that the roots of this shift lie in “*a fundamental shift in Britain’s underlying economic and political philosophy*”, which is that “*From the early 1980s, successive government’s subjected the UK economy to an all-embracing economic and social experiment, a switch from welfare to market capitalism*”.

The report, whilst providing excellent data to underpin its analysis of pay inequality, is also very clear on the reasons for this inequality, and the manner in which it has come about: “*The experiment in market capitalism led to successive waves of cost cutting, downsizing, industrial restructuring and short-termism, bringing decades of upheaval for much of the labour force while handing fortunes to the new financial oligarchy on a scale not seen since the 19th century*”.

This has resulted in a massive rise in UK unemployment (rising from an average of 2.3 between 1950-1979, to an average of 7.8% between 1980-2011), itself one of the essential drivers of an increase in low pay and pay inequality. The share of national output going to wages has shrunk from nearly 65% in the mid 1970s to 53% in 2008. This decline was borne almost entirely by the bottom two thirds of earners. A comparative analysis conducted for the report finds that whilst real earnings for the 90th percentile (the top 10%) have doubled over the last three decades, real median earnings (which the majority of the working population will be on or near) were only 56% higher, and for the 10th percentile they were only 27% higher. Thus, since the end of the 1970s wages for a significant proportion of the population have falling behind a general, though not evenly distributed, rise in prosperity.

This shrinkage in the earnings pool of low and middle income workers has resulted in a sharp rise in low pay. Thus the proportion of employees whose hourly wages are below two thirds of the median rose from 12% in 1977 to 22% in 2009. In that year, 5.3 million people earned less than £7.28 per hour.

The social and economic effects of this trend are explored in a wide-ranging report from the Resolution Foundation’s Commission on Living Standards, *Missing Out: why ordinary workers are experiencing growth without gain* (July 2011). The report builds on earlier research by the Foundation (*Growth Without Gain? The faltering living standards of people on low to middle-income*, May 2011) which demonstrated that economic growth, as generally described, is a misleading indicator if it does not take note of the distribution of the results - the “added value” - of that growth. To substantiate this, it notes that in 1977 of every £100 of value generated by the UK economy, only £16 went to the lower half of workers in wages; by 2010 that figure had fallen to £12, a 26% decline.

The *Missing Out* report digs deeper to reveal the underlying reasons, and finds them in the unregulated development of the financial services sector during the last decade (referencing an influential London School of Economic research report, “*Bankers’ pay and extreme wage inequality in the UK*”, 2010). The LSE research found that the increased share of wages going to the very highest earners occurred primarily because of an unprecedented growth in additional incentive payments, 60% of which was accounted for by massive bonus payments in the finance sector.

We have seen many individual examples of this, from Sir Fred Goodwin to Bob Diamond. This trend has in no sense declined following the 2008 financial crisis, if anything it has accelerated. The Office for National Statistics (ONS) reports that in 2010 bonuses to senior staff of City banks and insurance companies were “kept in check” at £14 billion (the ONS describe this as a “fall” because it is less than the £19 billion in bonuses paid out in 2007, omitting that it confirms an upward trend from 2008, when after the near total collapse of the financial and banking system bonuses were reduced to a mere £12 billion).

The ONS also fails to highlight that the headline figure is deceptive, in that the “average” £12,500 annual bonus paid to finance staff in the financial year 2010/2011 disguises huge disparities in the amounts paid to senior investment bankers in the City compared to the much lower bonuses going to ordinary retail banking staff outside London. To confirm this, a recent report by recruitment firm Kennedy Associates found that an average investment bank managing director received £300,000 to £400,000 in base salary, as opposed to £175,000 four years ago at the peak of the market, just before the crash. Barclay’s CEO Bob Diamond’s share of the total bonus pot was £6.5 million, on top of his £250,000 salary.

It is useful to put such massive levels of reward for a tiny minority of people against the wider social context of pay remuneration in the UK. Whilst the bonus culture of the City continues apace, the UK as a country has a higher proportion of its population in relative low income than most other EU countries. Of the 27 EU countries, only 4 have a higher rate than the UK.

These are raw, undisputed economic data. But to be of maximum use in making a popular, persuasive case against pay injustice and pay inequality, they need to be presented as part of a powerful argument for remedial action and a credible, costed alternative to austerity measures underpinned by a high minimum wage. Without such an argument, the provision of information about the low pay, poverty and debt problems of PCS members is in danger of demoralising rather than inspiring members.

Prem Sikka, Professor of Accounting at the University of Essex, has produced highly useful analysis of not only wealth and pay inequality in the UK, but also economic alternatives to austerity measures that will, inevitably, perpetuate and deepen such inequality. In a powerful article in the *Guardian* (*The ultra-rich could solve this financial crisis,* December 2010, reprinted by the Left Economics Advisory Panel), Professor Sikka puts the cuts in public sector jobs and the accompanying pay freeze in the context of the findings of the *Sunday Times* Rich List, which reports that in 2010 the collective wealth of the 1,000 richest people in the UK rose to £335 billion.

Professor Sikka calculates that given the massive personal fortunes of the 1,000 richest people in the UK, they could all very easily stand to lose 25% of that wealth (approximating to £84 billion) with no effect at all on their quality of life. This one redistribution of wealth would, by itself, reduce and virtually eliminate the need for massive spending cuts to address the deficit.

2. A More Equal Society

As a recent OECD research paper *Growing Unequal* warned, the fiscal consolidation and tightening in Sweden and Finland copied by the coalition government has led to the sharpest increases in pay inequality among developed countries.

The [Independent Commission on Social Mobility](http://www.socialmobilitycommission.org/) has also produced an [alternative analysis](http://www.socialmobilitycommission.org/wp-content/uploads/2009/01/social-mobility-report-final.pdf) for how we can achieve a more equal and socially mobile society. Key findings include a recognition that pay inequality leads to a lack of social mobility and that the policy solutions which will improve opportunities for those facing the greatest disadvantage are those which will reduce poverty.

Research by Richard Wilkinson and Kate Pickett detailed in their book *The Spirit Level: Why More Equal Societies Almost Always Do Better* lends support to this argument. Their research documents the level of health and social problems against the level of income inequality in 20 of the world’s richest nations, and in each of the 50 United States. What they find is that, in states and countries where there is a big gap between the incomes of rich and poor, mental illness, drug and alcohol abuse, obesity and teenage pregnancy are more common, the homicide rate is higher, life expectancy is shorter, and children’s educational performance and literacy scores are worse. Countries that have the smallest differences between higher and lower incomes, have the best record of psycho-social health. The countries with the widest gulf between rich and poor, and the highest incidence of most health and social problems, are Britain and the United States of America.

Societies where incomes are relatively equal have low levels of stress and high levels of trust, so that people feel secure and see others as co-operative. In unequal societies, by contrast, the rich suffer from fear of the poor, while those lower down the social order experience status anxiety, looking upon those who are more successful with bitterness and upon themselves with shame. The poor grew obese on comfort foods and took more legal and illegal drugs. In 2005, doctors in England alone wrote 29m prescriptions for antidepressants, costing the NHS £400m.

Wilkinson and Pickett show us that a wide range of social problems stem from income inequality and form circuits or spirals. Babies born to teenage mothers are at greater risk, as they grow up, of educational failure, juvenile crime, and becoming teenage parents themselves. They show quite clearly that in societies with greater income inequality, more people are sent to prison, and less is spent on education and welfare.

Wilkinson and Pickett do not think it is their job to offer political solutions, but increasing the national minimum wage, top tax rates, employing enough HMRC staff to collect all due tax, closing tax havens and legislating to limit maximum pay are clearly possible policy alternatives.

Thus, ignoring increasing inequality is not an option, but rather a disastrous course with inevitable social and political consequences.

3. Rates

NMW and Living Wage

Whilst negotiating for salaried staff, PCS has been keen to ensure that the minimum wage underpins starting salaries in the public sector. PCS Conference acknowledges that the rate currently is still at a level that means many recipients will be relying on benefits. In debates and motions from the past few years we have clear policy. The rate agreed as reasonable at conference was the living wage of £8.30ph roughly two thirds of the national average pay. PCS are now, in conjunction with other organisations, actively campaigning to ensure no PCS member falls below the living wage level. Therefore we believe it is imperative that the national minimum wage rises above inflation to a level that significantly closes the gap between the NMW and the living wage.

PCS take the view that increases must be set above the growth in earnings and inflation to bring it up to a reasonable level. The extra spending this would produce will help long term recovery of the economy. Many economists support this view and are now arguing for a significant minimum-wage boost, comparing it to stimulus action, saying that it pumps money into local economies and can lead to job growth. Heidi Shierholz, an economist at the Economic Policy Institute, said it's one way to shift money from corporate profits - which companies often sit on - to low-income workers, who can do more immediate spending. "When you get an increase in the minimum wage, you're getting a wage increase to the people that are low-wage families who depend on these earnings to make ends meet," "They have no choice but to spend that money in their local economy. That's the stimulus you get."

Pay and bonuses in the City are soaring to their pre-crash levels. Politicians who promised to regulate banks which were rescued by the taxpayer, and bring them under a democratic and accountable framework, have gone silent. Guardian analysis of data from the Office for National Statistics shows that bankers were paid £8.5bn in bonuses in the four months to April, compared with £7bn during the same period last year. There was also a jump in pay across the industry of £1bn to £12bn as bankers shifted some of their earnings away from bonuses to avoid the bonus tax. The result of the pay and bonus increases took the combined earnings for the bonus season to £20.5bn compared with £24bn at the height of the boom in 2007. In the service sector, the rate of profit is 14.5%, and has increased by 0.6% during the past year.

Therefore a decent increase in the NMW could easily be absorbed by employers. The NMW has now fallen well behind others in Europe. In France new President Francois Hollande has decided to boost the national minimum wage by an impressive two per cent. He has pledged to "right what was not done in the last five years" and recreate a balance between earnings and the inflation rate. "Workers salaries are weaker than the necessary buying power needed," said Minister for Work and Employment Michel Sapin yesterday, as he publicly announced the increase. The minimum wage in France was 9.22 euros per hour but this has just risen to 9.40 euros. Over a month, workers will see their pay packet rise to 1,425 euros compared to the current 1,398 euros.

The UK even in recession is a wealthy nation and a decent minimum wage is a necessary step towards a more equal society. Employers need to pay for work done rather than rely on subsidy by the tax payer through tax credits to run their business.

We also fully support the view of the TUC Young Members’ conference, in line with PCS policy, that the discriminatory lower rates should be abolished and the full NMW rate applicable to all workers.

4. Low Pay Commission

The national minimum wage, introduced in 1998, was important for improving the standards and conditions of many workers. However, as the prices of commodities have risen and continue to rise, the minimum wage has stayed relatively low. The Low Pay Commission needs to put a strong emphasis on a significant increase above inflation.

5. Compliance

NMW Compliance Officers are represented by PCS in the HMRC. They have issues around resources to do their jobs and protect low paid workers. Funding increased in 2007 and this has lead to an increase in the number of penalty notices issued by a factor of 21. However, the funding and resources for enforcement, and actual prosecutions need, as a matter of urgency, to be increased which would send a stronger message to employers who try to evade the law. Compliance teams tell us they are only ‘scratching the surface’ of parts of the economy where workers are afraid or unable to complain.

PCS campaigned against the outsourcing of the NMW helpline to a private company. By separating this from the public sector body that enforces the law it sent a signal that the Government itself did not see the helpline as integral to its enforcement team. Holiday pay queries are not able to be processed as the helpline workers have no clear agency for prosecution.

In the recent review of penalties and treatment of arrears in NMW cases some complex arrangements were proposed, which have added considerably to the workload of the HMRC Compliance officers. There is a strong possibility that HMRC's strike rate and arrears found are dropping under the Employment Act 2008. This is not because fewer employers are underpaying; it is because of the increased bureaucracy of having to make a formal order in every case.

The Employment Act envisages a penalty being charged in every case, and this in turn means a formal Notice of Underpayment must be made. Previously most arrears were agreed informally between HMRC and the employer, with less than 5% of underpaying employers receiving a formal Enforcement Notice. While we welcome more employers being charged penalties we are concerned that employers may now be getting away with paying less than NMW when previously they would have entered into an agreement to pay arrears.

HMRC solicitors are often unwilling to allow Notices of Underpayment (which they would have to defend in courts and Tribunals) to be made, unless a reliable worker witness is willing to give evidence in court, but such witnesses are often not available in cases involving vulnerable workers. A Notice of Underpayment cannot be made unless the exact number of hours worked by the employee in each pay period is known and this information is sometimes lacking. We are afraid that the increased bureaucracy of the new arrangements is exerting a downward pressure on results; not any improved behaviour by employers.

Formal notices mean that employers who employ workers illegally can never be made to pay arrears to those workers because Employment Tribunals will not enforce arrears in what they consider to be illegal contracts. While such workers might have been included in an all embracing informal settlement they are excluded from a formal notice.

More funding and resources would enable better policing of the NMW. In particular with regard to the NMW and holiday pay and would encourage closer multi-agency co-operation in cases of vulnerable workers. This would enable Compliance Officers to focus on rogue employers who may dismiss or victimise workers who have sought to assert their rights and misuse exemptions on ‘Interns or work experience’. Supporting low paid workers, raising living standards and tackling income inequality need to take precedent over the cuts agenda.

6. Apprentices

Being an apprentice should not mean you get exploited. A new apprentice rate should be equal to non-apprentices in the same age range. Very low apprentice pay is usually offered in trades such as hairdressing which mainly employ female workers. Often someone might work Saturdays or in the summer after leaving school for poverty pay.

Conclusion

Given the rising income inequality in the UK coupled with the very low level of the UK NMW compared to EU comparators, and what the Joseph Rowntree Foundation calls a “minimum socially acceptable standard of living” which calculates a single person needs to earn at least £15,000 a year before tax in 2011, to afford them the minimum acceptable standard of living. A couple with a single earner and two children need at least £31,600.

Inflation raised minimum household budget costs by around 5 per cent in the year to April 2011, slightly faster than the Government's main inflation measure, the Consumer Prices Index (CPI). Over the past decade, the cost of a 'minimum' basket of goods and services has risen by 43 per cent, compared with 27 per cent for CPI.

The think tank the Resolution Foundation has also just produced research that shows how households continue to feel the financial strain and are anxious about their jobs.

The research, carried out by polling firm Ipsos MORI, finds that: Fewer than half (48%) of people in low-to-middle income households have cash left over at the end of each month and fewer than three in ten (27%) in low-to-middle income households make monthly savings. Against an economic backdrop of gloomy statistics showing the proportion of household income that is saved is falling across the UK. A quarter of those polled expect their financial situation to get worse over the next 12 months. This supports the joint PCS and Unison members’ pay survey (2011) which revealed worrying levels of personal debt for our members. Key Findings from the survey were:

* PCS Members have seen their income fall by £100 per month (average)
* Approximately 9 out of 10 members have had to cut down on their spending.
* Over half of respondents said they had to cut down on clothing or food.
* Most PCS members said they can’t survive on their salary.
* On average PCS members have had to borrow approximately £300 a month to get by.
* 88% of members said that the budget had made them worse off. On Average by £150 a month.

All the evidence makes clear that the poor state of household finances risks choking off the economic recovery. Living standards for many were already flat-lining prior to the recession but real household disposable incomes are now falling. Low household spending, which makes up around two thirds of UK GDP, is continuing to dampen economic growth.

On entering Downing Street, the Prime Minister said he wanted ‘… to make sure that my government always looks after the elderly, the frail, the poorest in our country.’ People on low incomes remain highly vulnerable to the effects of today’s difficult economic situation. A growing number now find themselves below a minimum acceptable standard. Without real action to combat these effects, more people than ever will be excluded, for economic reasons, from feeling fully part of society. Therefore PCS believes, given the weighty evidence for abolishing low pay and tackling wage and wealth inequalities, the national minimum wage increase should make significant progress in closing the gap between the national minimum wage and the living wage.

Enrico Tortolano (enrico@pcs.org.uk)

National Bargaining and Policy

PCS

