



Ein cyf/Our ref: MB/FM/4168/12

David Norgrove
Chairman
Low Pay Commission
6th Floor
Victoria House
Southampton Row
London
WC1B 4AD

10 October 2012

Dear David,

Consultation on the National Minimum Wage

I refer to your letter of 22 June 2012 inviting the submission of evidence as part of your consultation on the National Minimum Wage.

I regret that we have been unable to respond within your deadline, but I know that our officials have been in contact over the summer in connection with both the underlying evidence and our specific concerns over the treatment of employability programmes in Wales.

On the specific issue of employability programmes, I realise that the requirement for such programmes in Wales to not be included under NMW regulations is primarily a matter for us and the lead department, for these purposes BIS. However, given the critical importance of the issue, I would like to stress our particular concern that regulations need to reflect the consideration that individuals on either the Skill Build, Traineeships or Steps to Employment programmes do not qualify for the NMW. Based on the changes recommended last year, we would like to retain the reference to "Skill Build" in the legislation as learners who started on the programme prior to 1 August 2011 are allowed to continue on that programme under the Skill Build terms and conditions after that date, until completion.

More generally, while we do not have any further detailed evidence to provide, I would wish to make the following general points.

People and businesses right across Wales are continuing to face real challenges as a result of the difficult economic climate, and it is vital that any changes considered in relation to the national minimum wage are implemented only once a detailed understanding of the likely implications is made available, including at a regional level including for Wales.

Our “Programme for Government” places jobs right at the heart of what we do, and we would welcome measures, including changes to the national minimum wage, if they were likely to encourage employment retention and creation in Wales.

However we are also clear in our Tackling Poverty Action Plan that whilst employment is the best route out of poverty, evidence suggests that a significant number of people in employment are also in poverty, hence the importance of a national minimum wage and related consideration of a living wage.

Tax and benefits changes alone are unlikely to be sufficient to eradicate poverty, and the national minimum wage, together with other policy considerations at the Wales and UK levels will have a potentially important role to play in realising the Welsh Government’s anti-poverty objectives.

The combined effect of changes in welfare reform and UK Government spending will potentially result in a net transfer of wealth from lower income groups to higher income groups in the coming years, and consideration of the national minimum wage should be set in this context.

Increasing the minimum wage would restore the spending power of individuals which has been eroded by price inflation being higher than wage inflation in the last few years. This may have macro economic benefits as many economists argue that a major contributor to the current economic downturn is the deficiency in aggregate demand. Private non-financial corporations have substantial cash holdings at the moment and corporate profitability has held up despite the continued economic downturn, suggesting that there is some scope for increasing the minimum wage without firms passing the increase on to consumers.

The level of the minimum wage needs to be considered in conjunction with the changes to the benefits system. It can be argued that as entitlement to and the value of some benefits is being reduced, then a lower minimum wage is needed to maintain the incentive to work.

The relative strengths of these effects needs to be quantified rigorously in order to make a balanced assessment of effects, hence the Welsh Government’s position on the importance of the work of the Low Pay Commission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones', written in a cursive style.

CARWYN JONES