



Response to Low Pay Commission consultation on the National Minimum Wage

About Oxfam

Oxfam is a British international development agency working in nine regions around the world, and in the UK. Oxfam's purpose is to overcome poverty and inequality all over the world including in the UK. We develop projects with people living in poverty that improve their lives and show others how things can change. We raise public awareness of poverty to create pressure for change. And we work with policymakers to tackle the causes of poverty. Oxfam's programme includes work with partners on the ability of people experiencing poverty to have a decent standard of living and make a sustainable livelihood, to live a life free from discrimination and have their rights to gender and race equality respected, and the right of refugees be free from destitution and live in dignity.

For further details about Oxfam's work in the UK, see www.oxfam.org.uk/uk.

Overview

In the long term, the National Minimum Wage (NMW) should aspire to be a living wage that keeps people out of poverty. This requires above inflation and average earnings growth increases as a standard approach for the annual uprating of the NMW.

In the short term, the UK is facing enormous increases in costs of essentials. For people living in poverty or just above the poverty line, these essentials represent a higher proportion of their income, and their rising costs therefore risk increasing the level and depth of poverty. This is exacerbated by rising inflation, which has meant the most recent change to the NMW, to be enacted in October 2008, represents a real-terms decrease. The NMW should be uprated accordingly to reflect these issues.

For apprenticeships, it is important that poor people are not deterred from training opportunities that can help them to build long term sustainable livelihoods by short term financial pressures, and we therefore propose that the NMW exemption for apprenticeships should be ended.

Attention must continue to be paid to the enforcement of the NMW. The rates at which the NMW are paid are vitally important, but the fight against in-work poverty will not be successful if these rates are not enforced.

Long term role of the National Minimum Wage

Oxfam see the long-term role of the National Minimum Wage (NMW) as one of the key factors in ending poverty in the UK. The current Government is committed to ending child poverty by 2020, and has recently announced that it intends to enshrine this commitment in law. We believe that no-one should live in poverty, and that in any case the poverty of a child cannot be separated from that of his or her parents, or from his or her community.

If this is to be achieved, the NMW must have a major role in preventing poverty for those in work. As things stand, however, there are more poor people in working families than in workless families¹ - which had not previously been the case since the NMW was introduced. This is in spite of the tax credit regime, and suggests that the NMW at its current levels is not sufficient to tackle poverty in working households.

The NMW should be set at a level that makes poverty for people in work unlikely. To do this, it must aspire to be a living wage. It is not our intention to put a figure as to what exactly that living wage level would be, but a number of approaches to doing that have been undertaken.

The London Living Wage, set at £7.45 for 2008, was based on a figure of a poverty threshold wage, based upon a poverty line of 60% of median income, plus 15%. That a living wage before taking in work benefits and tax credits into account would be £9.60 demonstrates that government intervention is already making a substantial contribution to tackling in-work poverty, and that the NMW should be playing a greater role.

In July of this year, the Joseph Rowntree Foundation developed a socially agreed minimum income standard, rooted in social consensus about the goods and services that everyone in modern Britain should be able to afford. Though the differences in household composition prevents this research being extrapolated directly into a wage rate that would prevent all working poverty, the research found that a single adult, working full time, would need to earn £6.88 per hour to reach this weekly standard.

The living wage studies and the poverty figures above demonstrate that the NMW is not currently set at a sufficient level to prevent in-work poverty. The long term aspiration that it becomes fit for this purpose therefore requires that NMW annual increases always be above the rates of both inflation and average earnings growth. Anything less will cause the NMW to slip further away from being a living wage; and conversely, increases above this minimum will enable it to meet this aspiration sooner.

We would therefore like the LPC to commit to a minimum annual increase of the rate of inflation (including housing costs) or of average earnings growth, whichever is the higher.

Specific issues for the next two increases to the National Minimum Wage

The above principles apply equally to the increases to the 2009 and 2010 rates which we have been asked to consider in this response. There are, however, two particular issues which call for above-inflation and above-average earnings growth increases.

¹ 2005/6 Households Below Average Income, based on the Family Resources Survey

First, inflation has been increasing and is volatile. The October 2008 increase to the NMW was, at the time of the announcement, higher than the CPI measure of inflation (3.8% against 2.5% in March 2008), and the same as the RPI. The figures for August 2008, however, are 4.7% on the CPI and 4.8% on the RPI. This means that there has been a real terms decrease in the NMW from 2007 to 2008. The 2009 increase in the NMW must be significantly above inflation merely to counteract this effect.

The volatility of inflation brings with it risks. That it rose between the announcement of the 2008 increase and its implementation contributed to the real-terms decrease in the NMW. Since the NMW is a minimum standard for those on low incomes, this effect has undoubtedly contributed to a rise in poverty. Continuing inflation instability brings associated risks to people whose budgets operate on very tight margins, and so an above-inflation increase will help to mitigate these risks for people below or around the poverty line.

The second issue is that of the differential inflation rate faced by poor people. As inflation has been driven by increases in the prices of food and fuel, their effect has fallen disproportionately on poor people, who spend more on those goods than average. In August, food price inflation was 14.5%, and electricity and gas price inflation 18% and 27.7% respectively. This is an under-researched area, but recent research from PricewaterhouseCoopers showed CPI inflation rates of 5.7% for the poorest income decile, and 5.4% and 5.2% for the second and third poorest respectively, against 4.7% on average².

If the NMW is not adjusted to reflect the higher levels of inflation currently faced by poor people, this will lead to a substantial increase in poverty, and deepen and entrench existing poverty. As a minimum, therefore, the LPC should take into account the higher levels of inflation being faced by the poor people whom the NMW increases of 2009 and 2010 will most directly affect. This should be considered in conjunction with, and not seen as an alternative to, rectifying the real-terms decrease in the NMW in 2008, and the effects of volatile inflation.

Issues around apprentices

Our concern around apprenticeships is that they are an important way in which people can build long-term, sustainable livelihoods. While apprenticeship schemes are exempt from the NMW, there is a risk of financial pressures preventing poor and disadvantaged young people from taking advantage of these opportunities. Young people in poverty may be incentivised by the NMW exemption on apprentices to take employment that pays better in the short term but offers fewer long term prospects, thereby lessening their chances of building a sustainable livelihood to keep them out of poverty in the long term.

Enforcement of the NMW

While the terms of this consultation are limited to the NMW's rate, and the specific issue of the apprentice exemptions, it is important also to highlight issues around enforcement. Failure to ensure that the NMW is enforced will mean that the increases argued for above will fail to realise their potential impact on poverty.

² See press release 'Consumer price inflation for poorest households rises to 5.7% says PwC', 16/09/2008, based upon CPI and Family Spending surveys published by the Office for National Statistics

Oxfam's Migrant Workers Project has highlighted a number of key issues in this regard, which affect migrants disproportionately, but are relevant to all workers:

- illegal deductions, such as travel or accommodation costs, which are set artificially high and effectively reduce migrant workers' wages to below the NMW rate
- a reluctance among vulnerable workers, especially migrant workers, to report problems
- the need for stronger – and also clearer – enforcement processes, with the current four different bodies dealing with different aspects of employment law, as well as the tribunal system, meaning that workers are often unclear as to where to go to report problems if they do want to complain
- the abuse of the piece rate system, which is often used by employers in situations in which this is not justified, such as for cleaning hotel rooms, to underpay workers.

Summary

We see the National Minimum Wage as key in ending in-work poverty. Unfortunately, rising inflation – and in particular higher inflation for people on low incomes – have caused the NMW to fall back in real terms over the past year, in spite of the October 2008 increase. That must be remedied as a matter of urgency if NMW is to continue to be an effective weapon against poverty.

In the long term, the NMW must be set at a level that works with the tax and tax credits systems to end in-work poverty. To achieve this, we would like the LPC to commit to a minimum annual increase of the rate of inflation (including housing costs) or of average earnings growth, whichever is the higher.

For apprenticeships, it is important that poor people are not deterred from training opportunities that can help them to build long term sustainable livelihoods by short term financial pressures, and we therefore propose that the NMW exemption for apprenticeships should be ended.

Finally, as important as the rate at which the NMW is set is its enforcement. Failure to ensure enforcement of the NMW undermines its potential to impact upon poverty. It is therefore essential that, across government, attention is focused on achieving complete compliance with the NMW, so that it can help end the poverty of all low-paid workers.