

Trade boards – precursors of the wages councils and today’s National Minimum Wage – were first enacted one hundred years ago in October 1909. **Simon Deakin** and **Francis Green** trace the legacy of a century of minimum wages in Britain.

# A century of minimum wages in Britain

**A**ny employee working in Britain who is over 21 will be entitled, from 1 October 2009, to an hourly wage of at least £5.80. Behind this simple fact – of considerable comfort for very many of today’s less well-off workers – lies not only a decade of work by the Low Pay Commission, but a hundred years of controversy, progress and regress since the first minimum wage was introduced.

For this year marks the centenary of

the passage through Parliament of the Trade Boards Act 1909. It fell to Winston Churchill, as President of the Board of Trade in the reforming Liberal government of the time, to introduce the bill on 24 March 1909, and pilot it through opposition and amendments until 20 October when it became law.

This statute was not the first enactment of minimum wage legislation in the modern era: similar laws had been passed in Australia and New Zealand in the 1890s. But among the larger nations, this was a first, and it heralded waves of twentieth century wage regulation around the world.

## The original model

The Trade Boards Act of 1909 empowered the relevant government ministry of the day, the Board of Trade, to set up a board in any industry in which wage rates were ‘exceptionally low compared with that in other employments’. The trade boards resembled joint negotiating bodies, with representatives of employers and workers from the trades concerned and some independents.

To begin with, only four industries were regulated: ready and bespoke tailoring, paper box making, lace finishing and chain-making. The powers of the first



boards were strictly confined: they could only set minimum hourly rates and equivalent piece rates. Nevertheless, for those covered, mainly women, it was effective in raising living standards and reducing poverty.

An expansion of the trade boards' functions and numbers followed after the First World War. By 1921, there were over 40 boards in place, covering three million workers in Britain, and a parallel system was to follow in Northern Ireland. The model was that the boards should do what, in other circumstances, was done through collective bargaining. Later the boards' powers were extended to include regulation of holiday entitlements.

The reforming Wages Councils Act 1945 was based on the premise that the state should use its powers not simply to ameliorate the effects of 'sweating' (extreme low pay and casualisation of employment) but to 'keep collective bargaining going when economic circumstances tended to destroy it'. The trade boards became 'wages councils'. At this point, approximately one in four of all workers were covered by statutory regulation.

These first minimum wages in Britain had emerged after a long period of activism in protest against the 'sweating' of labour, especially among women. And yet, the model fell a long way short of establishing a universal legal entitlement to a minimum wage.

In their 1897 book *Industrial Democracy*, Beatrice and Sidney Webb

had argued for 'a systematic and comprehensive Labour Code, prescribing the minimum conditions under which the community can afford to allow industry to be carried on; and including not merely definite precautions of sanitation and safety, and maximum hours of toil, but also a minimum of weekly earnings'.

But the solution arrived at by 1945 was a compromise that involved the expansion of wages councils alongside government encouragement for industry-level, multi-employer bargaining.

### After the Second World War

The wages councils system struggled to maintain its legitimacy in the post-war years. The prevailing view was that the retention of statutory controls was holding back the development of voluntary collective bargaining. Several wages councils, covering around half a million workers, were abolished in the 1960s and 1970s.

In the 1980s, the policy pendulum moved decisively in the direction of labour market deregulation. The Wages Act 1986 removed the powers of the wages councils to set more than basic time and piece rates, in the process eliminating all statutory paid holiday entitlements. Complete abolition of the remaining 26 councils followed in 1993.

This time of retreat on regulation coincided with a renewal of economic analysis of the effects of minimum wages. Against the then-prevailing economists' view that raising wages induced employers

The Webbs, early proponents of a national minimum wage, argued that it could help realign Britain's industrial structure with the wider interests of society

to reduce employment (the extent of loss depending only on the elasticity of labour demand), new models of the labour market claimed to represent the reality of many low-skilled labour markets better than the textbook model of perfect competition. The idea of 'monopsony' (see previous article) introduced a substantial element of ambiguity, even suggesting that moderate rises in minimum wages would increase employment, because of their positive effects on labour supply.

Simultaneously, advances in empirical research techniques and the availability of new sources of data revealed instances of minimum wage increases in the United States that induced only very modest changes in employment, either positive or negative. In Britain, research on the wages councils was finding no beneficial employment increases from

## The 1998 National Minimum Wage Act owes much to the original trade boards model of 1909



the reductions in wages that had taken place throughout the 1980s.

### The legacy

With the new Labour government of 1997, the National Minimum Wage Act 1998 was enacted. There was now a statutory National Minimum Wage binding on all employers regardless of their sector. It was to be complemented by the European Directive on Working Time, which, among other things, required re-regulation of the provision of paid holidays.

But the 1998 Act owes much to the wages council system, even more to the original trade boards model of 1909 and rather less to the Webbs. The tripartite structure of the Low Pay Commission is in a direct line of descent from the arrangements put in place for the trade boards. As in 1909, the 1998 Act and the related National Minimum Wage Regulations 1999 contain no power to set the minimum wage at a level that reflects living costs. There is no statutory mechanism for automatically uprating the minimum wage with price increases.

These arrangements contrast with statutory minimum wage regulation in some other European countries, most notably the French model of the 'minimum growth wage' (the *salaire minimum interprofessionnel de croissance*, SMIC). The law governing the SMIC, which has been in force since 1970, links the minimum rate to price inflation, and also makes provision for it to be raised each year by at least half the increase in the value of the purchasing power of the average wage.

In contrast to the earlier models, however, the principal constraint on

raising the statutory minimum is no longer the policy goal of preserving the voluntary collective bargaining system, but the perceived need to minimise what are seen as potentially negative economic effects.

One positive outcome of the intense interest in the effects of minimum wage regulation over the past decade has been the growing sophistication of social science research on this subject. Theoretical arguments are more rigorous and realistic than they used to be, while new data sources have been used in an imaginative way.

The research generated by the Low Pay Commission, and the use made of it, has been one of the better examples of evidence-based policy-making: it has supported the attempt to rationalise the process of setting the rate of the minimum wage. The consensus view from a wide range of empirical studies is that its introduction has not had the negative employment effects that orthodox economic theory predicts.

Aside from this, some dissident economists put forward a 'social cost' argument in favour of a national minimum as originally advanced by the Webbs. The minimum wage removes the artificial subsidy that low pay provides to inefficient firms, and which in an 'unregulated' system is borne by other firms and the community at large. In this way, it removes an externality and realigns the industrial structure with the wider interests of society.

This argument has featured more in debates in continental Europe than in Britain. A century on from the first Trade Boards Act, perhaps the time has come to look again at the Fabian argument for the 'public organisation of the labour market'.

This article summarises the introduction to a special issue of the *British Journal of Industrial Relations* (47: 2, June 2009), which celebrates the centenary of the Trade Boards Act 1909 with a selection of papers from several countries (<http://www3.interscience.wiley.com/journal/122382753/issue>).

**Simon Deakin** is professor of law at the University of Cambridge. **Francis Green** is professor of economics at the University of Kent and a visitor at CEP.

As in 1909, the 1998 Act contains no power to set the minimum wage at a level that reflects living costs or price inflation

