How the minimum wage caused minimum fuss

It was while he was on a tour of Britain to discuss establishing the minimum wage, shortly after standing down as Principal of London Business School, that the Canadian academic Sir George Bain saw the job advert that brought home his sense of mission. It was 1997 and in a newspaper in Newcastle he noticed an advert for a security guard, for 100 hours a week at £1 an hour. Applicants also had to supply their own dog.

“It would be hard to feed and house a large Alsatian on that kind of money, never mind the owner of the dog,” says Bain. “Thankfully that sort of extreme low pay has been obliterated.”

Getting insights

On their tour of Britain, Bain and his team from the UK’s Low Pay Commission tried to visit places that were paying very low wages, putting on jeans and casual clothes to fit in more. They also met with institutions, employers’ associations and unions. Some of them were wary of the idea of a minimum wage but they were pleased, says Bain that “at least they’d been listened to”. That support was useful for implementing what was called the most successful UK public policy of the last 30 years in a survey by the Institute for Government.

A radical idea

It was Tony Blair who decided to bring in the minimum wage in Britain after he was elected prime minister in a landslide victory in 1997. Bain had seen the idea floated two years earlier in a commission on public policy and British business that he was chairing for the Institute of Public Policy Research (IPPR). The left-leaning think tank was preparing for a Labour victory and wanted to set out plans for how to make British business more effective.

On the IPPR commission were senior leaders of British industry including Robert P Bauman, Chairman of British Aerospace, and Lord Hollick, Chief Executive of United News and Media, along with two figures linked to London Business School – David, now Lord, Sainsbury, Chairman of Sainsbury’s and Chairman of the School’s governors, and John Kay, who was Director of the School’s Centre for Business Strategy. Bain thinks he was picked to chair the commission because of his role as Principal of London Business School, but he was also an experienced mediator in union-management negotiations and had a doctorate in industrial relations.

Eleven months to design

Critics of the idea said the economy would stagnate; it would cause unemployment and inflation and destroy Britain’s economic position. But Blair went ahead and set up the Low Pay Commission in 1997 to implement the minimum wage, with Bain – who’d recently become President and Vice-Chancellor of Queen’s University, Belfast – as its chair. Bain had to decide how to design the system, how to enforce it and what the rate should be, with a deadline of 11 months.

The Commission opposed the idea of the then Chancellor Gordon Brown, who believed the Chancellor should set the minimum wage. They argued that this could lead to sudden big changes in the amount as governments changed. And from their research they proposed a figure that was approved by the panel of three employer representatives, three trade union representatives and three independents that included the chairman. The figure was £3.60 an hour for adults over 21 and took effect on 1st April 1999. That amount has increased steadily over the years to reach £6.31 an hour in 2013.

Part of the social fabric

Today, Bain says, the national minimum wage has almost ended extreme low pay, which is defined as below half the median pay rate. But low pay, which is defined as two-thirds of the median, is proving harder to eradicate. And Bain has been part of efforts to review the system and bring it up to date with changes in the labour market.

Of all his achievements, Bain thinks bringing in the minimum wage was the most
significant. And the biggest surprise was that it wasn’t as controversial as everyone expected. “I remember the headline in *The Independent* newspaper at the time: ‘Minimum wage, minimum fuss’”, he says. “By that time a lot of the rhetoric had died down and eventually it just became part of the social fabric.”

Sir George Bain was Principal of London Business School from 1989 to 1997. He was Chairman of the Low Pay Commission from 1997 to 2002 and then again from 2008 to 2009.