

Shobana Nair Sehkaran

Centre for Hospitality Employment Research
Department of Hospitality and Tourism Management

**The National Minimum Wage and Young
Workers: Implications for Employment and
Training in Urban and Rural Areas**

WP01/12

July 2001
ISSN 1471-857X

The Business School of the Manchester Metropolitan University is one of the largest business schools in the UK comprising more than 150 academic staff organised into eleven thematic research groups. The Working Paper Series brings together research in progress from across the Business School for publication to a wider audience and to facilitate discussion. Working Papers are subject to a peer review process.

Management and Business Working Papers are published by the Graduate School of Business of the Manchester Metropolitan University. The Graduate School of Business is the centre for post-graduate research in all of the major areas of management and business. For further information contact:

The Director, Graduate School of Business, Manchester Metropolitan University, Aytoun Building, Aytoun Street, Manchester M1 3GH

Telephone No: ++44 (0) 161 247 6798. Fax No: ++44 (0) 161 247 6854.

<http://www.business.mmu.ac.uk/wps/>

Shobana Nair Sehkaran
Centre for Hospitality Employment Research
Department of Hospitality and Tourism Management
Hollings Faculty
Old Hall Lane
Manchester M14 6HR
Tel: ++44(0161) 2472764
Fax: ++44(0161) 2476334
Email: s.sehkaran@mmu.ac.uk

Biography

Shobana Sehkaran is currently a doctoral candidate at the Centre for Hospitality Employment Research. Shobana is a member of BUIRA and of the Manchester Industrial Relations Society. Her research interests are in minimum wage policy, youth employment and employment relations.

Abstract

Theoretical and empirical work on minimum wage policy can be characterised as being located within two main perspectives. On the one hand, there is strong opposition to this policy (e.g. neo-classical models) on the grounds that interference in the free labour market will lead to negative employment consequences. On the other hand, more recent approaches (e.g. dynamic monopsony model, radical segmentation model, efficiency wage theory) support this policy and oppose the role played by an ‘invisible hand’ in the market. Given the conflicting findings in the literature about minimum wage policy, the influence of the National Minimum Wage on employment is reconsidered in this paper by examining the minimum wage’s influence on the employment of young workers within the hospitality sector in urban and rural areas. Preliminary findings based on an exploratory study of 29 hospitality firms suggest that the National Minimum Wage has had little impact on employment practices, and has not led to the substitution of young workers for older workers in either the rural or urban areas.

Keywords: Minimum Wage, Young Workers, Employment Practices, Pay Structure, Hospitality Sector

1. Introduction

The economics of minimum wage policy are controversial topics that have gained renewed interest in recent years among economists and social scientists alike (Dolado et al., 1996; Dawkins, 1997). In Britain there has been a resurgence of interest in this issue among researchers as the National Minimum Wage (NMW) was implemented on the 1st of April 1999.

The Low Pay Commission (LPC), an independent body was formed to advise the government on implementing the NMW. It identified that young people, women, ethnic minorities, people with disabilities, part-time workers, lone parents, temporary and seasonal workers, and homeworkers could be most affected by the NMW because they are more likely to be low paid than other workers (Low Pay Commission, 1998). As a result of the LPC's recommendations, the NMW was initially set at £3.60 an hour for adult workers over the age of 21 and a lower youth development rate of £3.00 was applied to young workers between the ages of 18 and 21. Workers below the age of 18 were exempted from the NMW. On 1st October 2000 the government increased the adult rate to £3.70¹ and in June of the same year, the youth development rate was increased to £3.20. This pilot study was carried out in the middle of July 2000. Thus any changes in employment policy towards young workers as a result of this increase would be captured in this study.

Youth labour markets have unique characteristics that make them significantly different from the adult labour market, hence there have been quite a number of recent studies focusing on youth in the labour market (e.g. Deakin, 1996; Dustmann et al., 1996; Roberts, 1995). The nature of the involvement of youth in the labour market has shown tremendous changes over the years. Youths today seem to seek financial independence from their parents at a much younger age. Their transition from school to work is more gradual as the period of overlap between education and work has increased noticeably (Micklewright *et al.*, 1994; Dustman *et al.*, 1996; and Lucas and Lammont, 1998).

Currently in a labour force of just under 30 million workers aged 16 years and over in the United Kingdom, young workers (16-24 years) represent 14% of the labour

¹ This rate will be further increase to £4.10 in October 2001 and to £4.20 (subject to the economic conditions) in 2002.

force (National Statistics, 2001a). The Labour Force Survey also indicates that of the total population of this age group, 62% are in employment (National Statistics, 2001b). This is partly due to the growth of students engaged in part-time employment. For example the proportion of students of the age of 16-24 in full-time education and employment in Britain has increased from 23% in 1984 to 39% in 2000 (National Statistics, 2001b). One sector that has attracted a large number of young workers is the hospitality sector. During the 1980s, involvement of young workers (under 21 year olds) within the British hospitality sector grew due in part to the increasing size of the fast food industry. The Low Pay Commission (1998) identified the hospitality sector, along with retail, business services (contract cleaning and security), social care, hairdressing, agriculture, and clothing and footwear as industries with the highest concentration of low paid workers.²

This paper begins by highlighting the current theoretical developments on the implications of the minimum wage on employment, followed by an outline of the methodology employed in this study. The succeeding sections will present the preliminary findings of the effect of the minimum wage on the employment, training and substitution of young workers, on the pay structure of young workers, and on the business strategies used by the firms in dealing with the increase in the NMW.

2. Evaluation of the Minimum Wages Theory

Over the years there have been a number of economic models that have tried to explain the behaviour of the labour market, and therefore the relationship between wages and employment. The models range from a simple ‘supply and demand’ model to more dynamic two-sector models.

2.1 Classical Approach

The basic textbook competitive model simply strikes off the minimum wage as hazardous for the labour market. This model, which uses the simple ‘supply and demand’ approach in a single market depends crucially on the assumption that workers are homogeneous and their skills and level of effort are given exogenously. Wages are set at the marginal productivity level and a minimum wage that is set above this equilibrium level is expected to reduce employment. Assumptions of

² Proportions of employees earning below £3.50 per hour.

perfect information among employers and employees are used by the neo-classicals to justify their reason for believing that market wages will prevail at a standard rate for a given efficient level of labour. However, it can be argued that this explanation is theoretically naïve and empirically inaccurate. In the real, more complex society, you would find a broader range of wage differentials that differ across segments in a number of ways, including by region, gender, race, age, skill and education attainment (Rubery, 1997; Lucas and Langlois, 2000b).

The perfect competitive model was popular in the 1970s and 1980s, as most studies during that period found small but significant negative employment effects of higher minimum wage on workers (Brown *et al.*, 1982). This explains why the monopsony model, which advocates positive employment effects of a minimum wage was not popular at that time. As claimed by Brown *et al.*, (1982), “the monopsony model has not motivated much recent work, perhaps because there is little evidence that it is important in modern-day low wage labour markets.”(p489) However, there was a major development in the 1990s when the study by Card and Krueger (1995) challenged this conventional notion of minimum wages. As a result, over the last decade economic models (e.g. monopsony models, radical segmentation theory and efficiency wage theory) that include involvement of firms in the wage setting process, as opposed to the role played by an ‘invisible hand’ in the market, began to gain popularity (Edwards and Gilman, 1999). These models were able to explain the increasingly weak link that was found between the minimum wage and low wage employment opportunities.

2.2 Latest Approaches

The basic monopsony model suggests that the monopsony power of employers allows them to be in a position to depress wages to less than the workers’ marginal productivity level or the true market rate. Therefore, an increment in wages as a result of a minimum wage could be carried out easily without raising prices or reducing employment. An extension of this model, the dynamic monopsony model, takes into account the labour market frictions (neglected by most traditional models) in explaining the positive employment effect of the minimum wage. According to this model, the cost of looking for jobs results in workers accepting employment even if the wage is below the marginal productivity level. Each job searcher adopts a

reservation wage that is set at the equilibrium of the marginal benefits of search and the marginal cost of search. In order to optimise lifetime discounted income, jobs that pay more than reservation wages are accepted. It is important to point out that in most cases the reservation wage of young workers is lower than for adult workers, and this can explain the reason for the high concentration of young workers in the low paid sector³. The advantage that the monopsony model has over the perfect competitive model is that it acknowledges the heterogeneity among firms that causes the minimum wage to affect different firms in different ways, in contrast to the unknown market forces (Edwards and Gilman, 1999; Lucas and Langlois, 2000b). However this model does not explain what the institutional forces at play actually are or what the role of wages in the production process is (Edwards and Gilman, 1998).

The shortcomings of the monopsony model are taken into account in an efficiency wage framework. This approach assumes that the labour market is segmented into primary and secondary type; and wages are paid accordingly. Edwards and Gilman (1998) for instance argue that this is the first model that has placed real labour market observations within a formal economic theory. The segmentation in the labour market can explain the wide variation of wages among workers and also suggests “that workers will not be priced out of a job if they can raise their productivity” (Lucas and Langlois, 2000b:3). The efficiency wage theory suggests that firms will pay wages above the market clearing level as this can increase workers’ efforts and also morale. Therefore, if a minimum wage is effective, an employer will be willing to pay more than the minimum wage level to motivate workers through wages rather than to monitor employees that shirk from their responsibilities, which conceivably is a more expensive alternative.

The general criticism of this model, as mentioned by Botwinick, is the acceptance of higher wages as a substitute for the costs of supervision (cited in Edwards and Gilman, 1999:23). In other words, if employers pay higher wages, they will not monitor their workers at all and these workers are now expected to obey working regulations, instead of shirking from duties. It is an accepted fact that “employees will avoid their duties if they can and that employers thus face costs of supervision”

³ The other groups of job searchers that are expected to have low reservation wage are women workers, less educated workers and workers with less wealth. (Watson, 2000).

(Edwards and Gilman, 1998:9) whether the wages are high or not. The link between wages and effort is not as simple as explained in the efficiency wage theories, whereby workers either obey or shirk. There is a strong relationship between all the actors in the production process in determining the final outcome (Edwards and Gilman, 1998).

The radical segmentation theory is similar to the efficiency wage model, but differs in being oriented towards the dualist approach. As suggested by Reich *et al.* (1973), the labour market conditions can best be explained as an outcome of four segmentation processes: primary and secondary markets, within the primary sector, by race and finally by sex. However this model can be considered as an advanced version of the efficiency wage approach as it recognises pay determination as part of a political process, a control strategy by firms, not merely as a process of achieving economic efficiency (Edwards and Gilman, 1998). The implication of a minimum wage in this model is that “wages are seen not as the result of a calculus of supply and demand of efficiency wage consideration, but as the outcome of deep-seated forces in the economy” (Edwards and Gilman, 1998:10). Therefore a minimum wage will not cause a distinct ‘big bang’ effect as it will be part of the continuing dynamics of the labour market that faces a whole series of other market pressures (Edwards and Gilman, 1998). Similar to the efficiency wage theory, the radical segmentation theory demonstrates a lack of justification for a distinct separate labour market. As stated by Botwinick, “the evidence that there are indeed distinct market segments is lacking” (cited by Edwards and Gillman, 1999:24). Another key weakness in the efficiency and radical segmentation theory is the ignorance of “the possibility of an equivalent effort/reward exchange in the secondary sector” (Lucas and Langlois, 2000b:4). As stressed by Edwards and Gilman (1998), wages are supposedly used as a motivational tool and seen as only essential in the primary labour market, while there is no room in the theories for engagement of firms from the secondary sector in complex negotiations/bargaining.

In a real economy, the coverage and compliance with a minimum wage are far from universal, hence compared with a single sector model, a two sector model (one with minimum wage coverage and the other without it) would be more practical in investigating the effectiveness of a minimum wage policy (Fields, 1994). Some

sectors may not be covered because of legislation. For example the wages councils and wages boards that existed in Britain between 1909-1993 did not cover all industries. Conversely the NMW, which was implemented on 1st April 1999 in Britain covers all business sectors. Even though the legislation says that all industries must comply with the NMW, non-compliance among businesses does exist, especially in firms operating at the edges of the legitimate labour market, and particularly in the informal economy. The vulnerability of workers involved in these areas of activity makes them reluctant to jeopardise their jobs by challenging their employer or by reporting non-compliance (Low Pay Commission, 2000).

Therefore there is a sense that in the real economy juxtaposed to an ideological paradigm, a two-sector model is more effective in explaining the labour market than a one-sector model. According to this model, an increase in the minimum wage will lead to a reduction in employment in the covered sector. This labour will move into the sectors not covered by the minimum wage or simply quit from the market altogether (Mincer, 1976).⁴ As a result there will be excess supply of labour in the sectors not covered by the minimum wage and the wages in this sector will fall. In short “the effect of the minimum wage on total employment according to this approach depends on the elasticity of labour supply and reservation wages of those who do not obtain covered sector work, as well as more obvious factors such as the size of the covered sector and the elasticity of labour demand” (Brown et al., 1982:490). Equally, the number of firms who do not comply can be considered as a factor determining the influence of a minimum wage on total employment. This approach has attempted to move away from the traditional competitive model by suggesting that the ‘total employment’ of the economy may not be affected because of the constant movement between the covered and not covered sector. However, this theory still supports the main framework of the competitive model that an increase in the minimum wage will lead to job losses in the covered sector.

3. Methodology

The effect of the minimum wage policy on employment has been traditionally examined by studies using three different types of methodology: times series studies;

⁴ The decision by workers to quit from the market is determined by their reservation wage. If the reservation wage is higher than the wages in the not covered sector they are more likely to quit from

cross sectional studies; or single/small group of low wage industry studies. The present research study employed the latter as this method takes into account the more dynamic details that are relevant to firms in different locations. Postal questionnaire and telephone interviews were targeted at managers/owners of businesses in the hospitality sector. The survey was designed to generate data concerning workforce profiles and pay structures, and to capture information and informed opinions regarding the NMW.

Regional variation in minimum wages is rejected by those who support the implementation of the NMW based on the reason that even though it is possible to identify pay differences between regions, all regions experience low pay (Hunter and Kelly, 2000). However, two different geographical areas are selected for this study in order to identify whether there are significant differences in the implications of the NMW for young workers between rural and urban areas. North Manchester represents the urban area, while North Wales represents the rural area. According to the Low Pay Commission (1998:136) “the greatest impact of the NMW in the hospitality sector will be in the smallest outlets, low paying areas and those businesses heavily dependent on seasonal visitors”. Both areas chosen for this study are recognised to be in low paying regions, and the businesses in North Wales rely significantly on seasonal visitors.

The sub-sectors of the hospitality sector with more than 10 workplaces published in the Yellow Pages formed the sampling frame for North Manchester and North Wales. Although pubs form the largest activity in each area, there is a marked difference in the mix of activities between the areas. Activities that are excluded in both North Wales and North Manchester (less than 10 workplaces) are banqueting and function rooms, conference facilities and services, holiday accommodation and hostels. A one in 25 random sample by sub-sector gave a survey sample of 79 workplaces for North Manchester and 93 workplaces for North Wales, where two sets of questionnaires, one in English and one in Welsh were used. The response rate of 29 questionnaires (17%) is consistent with the Lucas and Langlois (2000) study (15%).

Of the 29 respondents, only 10 (7 from North Wales and 3 from North Manchester) agreed to be interviewed on the subject of the NMW. The majority of the respondents preferred telephone interviews. All the 10 respondents were contacted to arrange for an interview but only 7 respondents were interviewed. The three who were not interviewed either could not be contacted or changed their minds for being interviewed due to a busy work schedule. Acknowledging the sensitive nature of the research topic, a response rate of 17% (29 questionnaires) from the postal survey and 7 interviews is a reasonable sample to be analysed as part of the pilot study to provide vital guidance for the future direction of this research.

4. Findings of the Survey

A wide array of results concerning the employment and attractiveness of young workers was obtained from the questionnaire survey and interviews. Some of the main preliminary findings pertaining to the NMW are presented in the following sections.

4.1 Employment, Training and Substitution of Workers

Generally before the ‘Card and Krueger’ era (prior to the early 1990s), most studies frequently found an inverse relationship between the level of a minimum wage and youth employment. A large amount of literature over the years especially in the U.S showed a clear consensus on this negative relationship, with the only disagreement centring on the size and significance of the relationship. However, compared to the 1970s and 1980s, recent studies have contributed to a broader range of the estimates that both supports (e.g. Card and Krueger, 1995; Katz and Krueger, 1992) and also opposes (e.g. Neumark and Wascher, 1992; Currie and Fallick, 1996; Bazen and Martin, 1991) the minimum wage policy.

This survey shows that a large proportion (almost 75%) of employers in the hospitality sector in North Wales and North Manchester are currently employing young workers (under 21 year olds). Over half of the employees employed in the sample were young workers aged under 20. The majority of these were students, part-timers and females. The only noticeable difference that was found between the urban and rural labour markets involves the additional labour market constraints faced by the businesses in rural areas. As a result of limited labour supply in this

area, firms have to rely on particular types of workers, not necessarily out of choice. Clear evidence of this situation was explained by an employer of a single independent restaurant in North Wales:

“As there is one main large employer, plus a larger mental nursing home in close proximity, they employ most of the good workers in the area and also pay very good wages. Therefore we are left with mainly school and college students who work weekends and holidays”.

(Restaurant, North Wales)

As an overwhelming majority of the employers in both these areas employ young workers, the impact that the youth development rate under the NMW will have on the young workers can be analysed in this study. Tackling the first issue on the employment effect of the NMW shows that a majority of the respondents in North Wales have indicated in the questionnaire and also in the interviews that there has not been any change in the workforce profile as a result of the NMW. However it is interesting to point out that two workplaces have increased full-time employees and there are also two workplaces that have employed more part-time employees.

The majority of the respondents in North Manchester have also indicated that there have not been any changes in the employment of workers as a result of the NMW. Even though this is just a small sample, there is no apparent evidence that indicates that employers have taken drastic action in reducing staff numbers, as feared by traditional labour economists. On the contrary there has been an increase in employment in both these areas, perhaps due to other factors, such as an expansion in the respective business or growth in the tourism industries in general.

One of the main fears of introducing a differential minimum wage rate between adult and young workers is the degree of exchangeability between these groups of workers. A minimum wage may lead to employers employing cheaper young workers to replace older workers and also substituting young adult workers with under 18 year old workers who are not covered by the NMW. Lucas and Langlois (2000) found no justification for this fear in the hospitality and retail sector as the introduction of the lower development rate did not lead to any substitution effect. This is also the scenario in the United States, whereby Card's (1992) result ruled out any widespread substitution of young for older workers.

The findings from this study are also consistent with the above results. An overwhelming majority in both North Wales and North Manchester responded that they had not substituted young adult workers (18-21 year olds) with youths below the age of 18 as a result of the increase in the youth development rate. All of the respondents also stated that they did not substitute older workers with younger workers. This shows that there is a distinction between younger workers and older workers and employers appear not to simply employ staff because they are cheaper.

Looking into the provision of training, employers have started to emphasise that investment in human capital is now “a necessary if not sufficient condition for improving economic performance” (Sutherland, 1999: 353). Investment in human capital can be made in the forms of general and vocational education and training. The distinguishing feature of investment in human capital is the potential social or public benefits that create positive externality or spillover effect (Sutherland, 1999). This is one major reason for employers to be reluctant to bear the cost of training employees on their own. Therefore the question arises as to how will the NMW affect training of young workers?

This study shows, albeit suggestively, that there is no basis for the fear that training for young workers will be affected as a result of the NMW. A majority (11 out of 13) of the respondents in North Wales and North Manchester did not agree that they would be reducing training because of the NMW. However a large proportion (5 out of 12) of the respondents in North Wales did not agree that there will be a positive affect on training, while a minority (4 out of 12) agreed on the positive effect and the rest of the respondents were unsure of the outcome. From the seven interviews carried out, only one guesthouse in North Wales provided the opportunity for their staff to gain a NVQ qualification in first aid, welcoming guests and computer training. These employees were also encouraged to take part in the British horse society examination in riding and road safety. This guesthouse is different from other hospitality establishments as it also has a riding centre, so training is important in this business. According to the owner of this place the introduction of the youth development rate has in fact positively affected the training for young workers.

“We are clearer about training time and if the training is done with an affiliation the with local college, then it is independent of what

you are paying workers. It splits training from employment. So you pay them to muck up stables and you don't pay them when they are students”.

(Guesthouse, North Wales)

The rest of the six establishments only provided informal training such as on the job training, and an introduction of health and safety regulations. According to the respondents, they felt that this training is sufficient for the employees to carry the job out effectively. All the employers seem to pay full wages to their employees during the training period.

Regarding the implications of the youth development rate on training for young workers in North Manchester, a number of respondents (4 out of 8) agreed that the youth development rate will have a positive effect on training of young workers whilst the rest of the respondents were unsure. As the respondents interviewed were all from small establishments, training was just part of covering routine health and safety regulations and on the job training, and not an important part of their employment policy. Therefore, so far the NMW has not affected the training of workers in this sample.

“We do have health and safety programmes that all employees have to take part in on the premises. Everyone will get a copy of the regulation and they have to sign to say that they understood it. We are trying to make sure that they are aware of the danger to themselves and other people. We do not have any accredited training, as we are only a very tiny restaurant. If we are one of the major food chains then we need accredited training”.

(Restaurant, North Manchester)

4.2 Pay Structure

The Government has been particularly concerned about the need to protect the position of young people from being exploited by employers. However at the same time they understand that it is essential to “avoid reducing the relative attractiveness to young people of staying on in education and training, and also avoid discouraging employers from providing training for those in work” (Department of Trade and Industry, 1998:3). This is the main reason for those below the age of 18 to be exempted from the NMW and for a lower development rate for 18-21 year olds. Recent reviews carried out by the Low Pay Commission found that most employers

were found to be paying the adult rate from age 18 onwards, therefore the youth development rate appeared not to have been utilised (Low Pay Commission, 2000).

A majority of the employers in North Wales (7 out of 12) stated that they were already paying 18-21 year olds more than £3.20 before the new rate came into force in June 2000. Most were paying £3.60, with two paying £3.25 and £4.00 respectively. However a large minority (5 out of 12) had to increase young workers' pay, and all confirmed that this increase was to £3.20. Another employer was already paying £3.20. Therefore the youth development rate seems to be utilised in a rural, low paying area like North Wales, but is not necessarily paid to all young workers. In North Manchester, three firms stated they were already paying more than £3.20 before June 2000 (£3.50, £3.60 and £3.70), with another already paying £3.20. Of the three who did not, only one stated they had increased pay to £3.20 in June to comply with the new rate, but the data do not indicate if the other two had also complied. Thus after 1st June two firms were utilising the youth development rate.

Fewer respondents disclosed details about their pay structures before and after June 2000. One of the reasons for the low response to this question is because a majority of the employers in North Wales (11 out of 18) stated that they did not have age-related pay. Even so figure 1 provides more specific information about the lowest hourly rates applicable to each age group. The pay structures for various age groups of young workers in North Wales are varied, but the lower and upper boundaries are similar for all young workers. The wages for workers below the age of 18 ranged from £2.75 to £4.00 before, and also after the increase in the youth development rate in June 2000. It could have been expected that the wages of exempt workers would not have changed, but figure 1 indicates that in some cases the initial youth development rate of £3.00 was utilised for exempt workers and workers aged 18-21, and that firms simultaneously raised the wages of both groups by the same amount.

The minimum hourly pay in the sample for young adult workers before June 2000 ranged from £3.00 to £4.00 but after June 2000, in complying with the increase in the youth development rate, the lower boundary of the pay range increased to £3.20 while the upper boundary remained at £4.00. One interesting feature that can be observed in figure 1 is that there seems to be a more diverse pay structure after June 2000 for young adult workers, with some employers having increased pay to more

than £3.20. This might be as a result of employers having anticipated a further increase in the NMW in 2001, so they may have decided to give their employees staged increases in wages in order to spread the costs more gradually.

Figure 1: Pay Structure for Various Age of Young Workers, North Wales

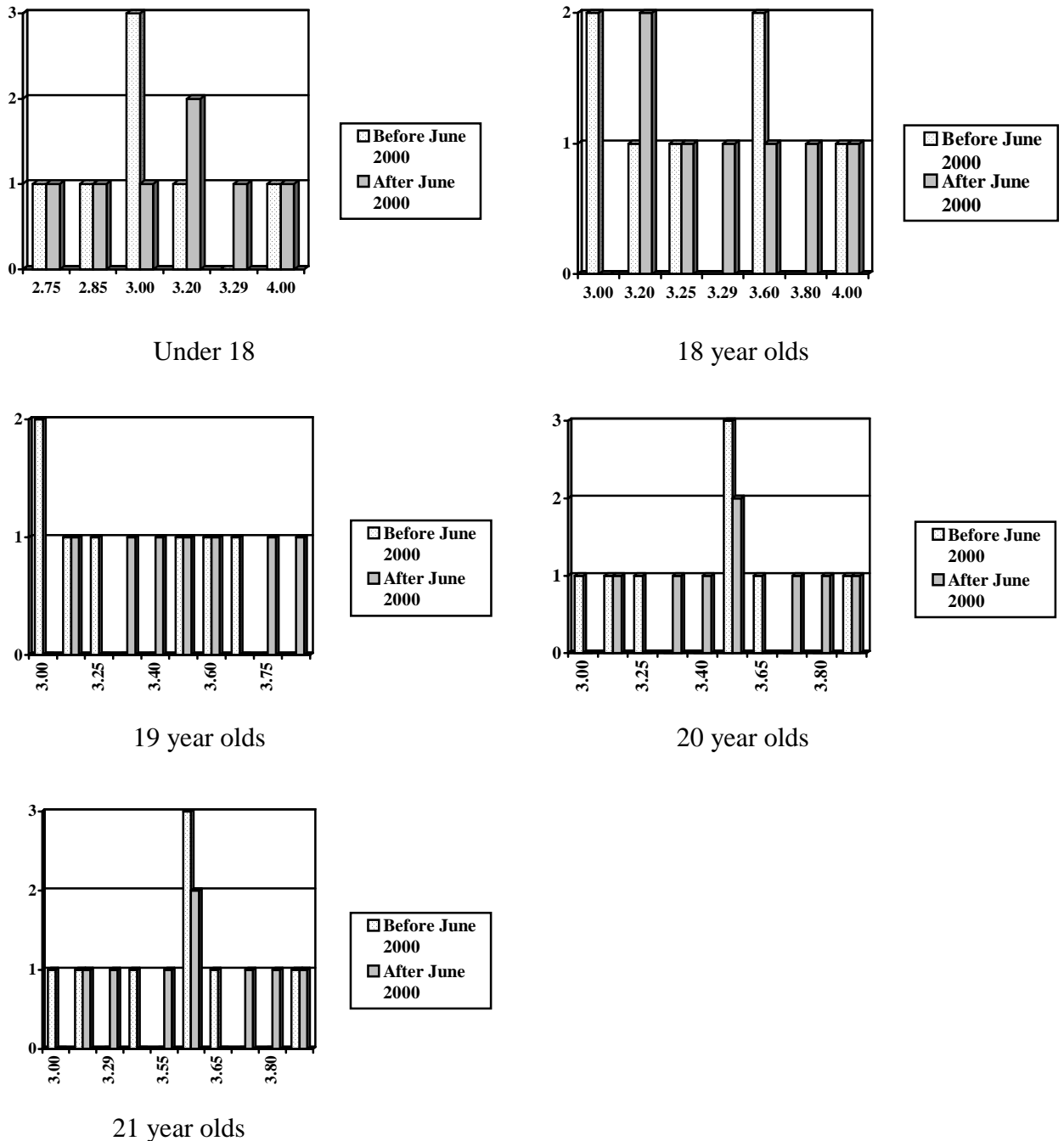
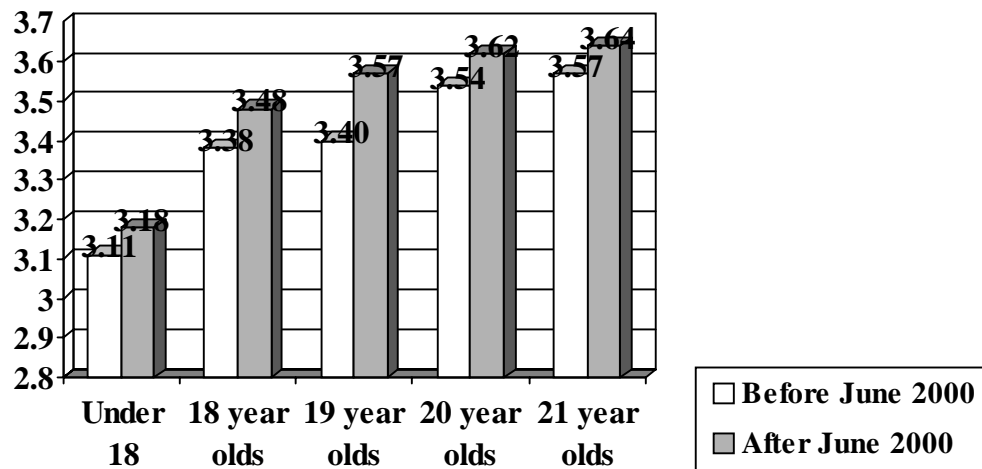


Figure 2 shows that the mean wages for each age group in North Wales have generally increased. This serves to highlight an increase in mean wages even for the age groups that are exempted from the NMW; i.e. those below the age of 18, as noted

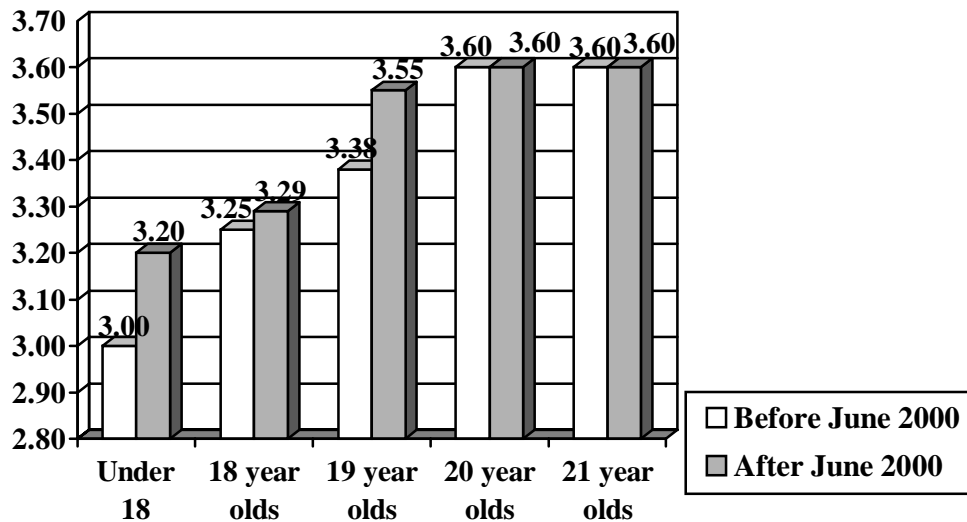
above. However, the wages of this group of workers are considerably lower than the wages of young adult workers. The mean wages for young adult workers after June 2000 are comfortably above the current youth development rate of £3.20. The mean wage rates for 20 and 21 year olds after June 2000 also seem to be close to the new adult minimum wage rate of £3.70, suggesting that these age groups may be considered as adults by most businesses.

Figure 2: Mean Wages, North Wales



Median wages are also plotted in Figure 3. The median value is not affected by outliers, while the mean value is affected by outliers, which leads to an undervalue or overvalue of the real average value (Levin 1987). In this case, the median values for workers below 18 year olds and 18 year olds differ considerably from the mean value. This suggests the presence of outliers in this distribution, so the median would be a better estimator of changes in pay. However the main conclusion on movements in wage levels, regardless of using the mean or median, remains the same. There is a distinct increase in median wages for workers below the age of 18 from £3.00 to £3.20. The median wages for young adult workers are also comfortably above the current youth development rate, especially for the 19, 20 and 21 year olds. The median wage of 20 and 21 year olds before and after June 2000 seems to be at £3.60, which as noted earlier implies the acceptance of these age groups as adult workers by employers.

Figure 3: Median Wages, North Wales



Very little comparison can be made between North Wales and North Manchester in terms of their pay structures, as most respondents in North Manchester did not respond to this question. As only two respondents answered this question, graphs of the pay structure are not plotted for this section. Similar to North Wales, the reason for the low response is because of the lack of age-related pay (only 2 out of 10 responses). The first respondent was paying employees who were below 18 year olds and 18-21 year olds £2.50 an hour before June 2000 and, although not complying with the NMW, did increase the wages of these employees to £3.20 an hour after June 2000. The wages the second respondent was paying ranged from £3.25 an hour for below 18 year olds to £4.00 an hour for 21 year olds, and did not alter after June 2000.

4.3 Strategies Taken by Businesses

A number of employers in North Wales (5 out of 12) and North Manchester (3 out of 7) had to increase the wages of their young adult workers in June 2000 in order to comply with the NMW. Therefore it is important to assess the strategies taken by these affected businesses. Similar to the studies by Brown and Crossman (2000) and Hoque (1999) who investigated the behaviour among employers in the hotel industry, this study will also divide the strategies taken by employers into three categories. They can opt for a quality enhancement strategy, a cost-minimisation

strategy or select a less strategic but more reactive approach. As observed by Schuler and Jackson (1987), even though these strategies are distinct, they are not mutually exclusive and in reality an organisation may pursue more than one strategy simultaneously (cited in Brown and Crossman, 2000).

Generally the evidence from North Wales and North Manchester as shown in table 1 tends to suggest that employers did not take any action. This is because a majority of the respondents (11 out of 19) were not affected by the increase in the youth development rate. Out of those affected by the increase, a majority of the employers were prone to carry out reactive or ad hoc actions of increasing prices or accepting a lower profit, rather than following strategic actions of either cost-minimisation or quality enhancement. The ‘maybe’ response is also more dominant than the ‘definitely’ response and this further supports the idea that the establishments may behave in a more ad hoc or spontaneous manner. This may suggest that there is not necessarily a clear cut option to deal with an increase in the NMW, or that employers prefer to keep their options open.

Even though the majority of employers in North Wales and North Manchester are not contemplating reducing staff levels because of the increase in the youth development rate, there has been discontentment among employers in North Wales and also North Manchester about the increase in the NMW. One employer indicated that he had to increase the wages of all employees in order to maintain pay differentials

“I had to increase wages of age group 16- 18 year olds who were previously paid £2.75-£3 per hour to £3-£3.20 per hour. The main increase has been in our good permanent mature workers, who are all part-time workers for me but have full-time posts elsewhere. Therefore they have to pay a higher rate of tax. These are the workers for whom I have had to increase their wages from £3.75 to between £4 and £5 per hour, just to keep them. Consequently, as we are unable to increase prices, profits will be reduced and as all the other cost escalating, it makes it a very tenuous position”.

(Restaurant, North Wales)

“The NMW is killing business!”

(Café, North Manchester)

Table 1: Reaction Strategy for Businesses in both North Wales and North Manchester

Strategy	Definitely	Maybe	No
<i>Cost Minimisation</i>			
Changes in workers' pay and benefits structures (n=13)	0	0	13
Reduce number of staff employed (n=16)	0	4	12
Reduce working hours (n=17)	3	4	10
Employ more part-time workers (n=15)	1	6	8
Reduce training (n=13)	0	2	11
<i>Quality Enhancing</i>			
Increase the use of technology (n=13)	0	3	10
Increase quality of service (n=13)	1	4	8
<i>Ad hoc/Reactive</i>			
Increase prices (n=17)	3	7	7
Reduce profits (n=16)	6	3	7

5. Conclusion

The major drawback with traditional economic theory is that it can be seen to be theoretically naïve and empirically inaccurate in its conceptualisation of a rational 'economic man' which is increasingly at odds with the actual complexity of human behaviour in social settings (Prasch, and Sheth, 1999). On a similar note, the use of the archetype of the rational worker has the potential to distort researches and amplify misconceptions when looking at pay-regulation and its impact on behaviour. It follows that policy makers should rather take into account the full diversity of workers in terms of region, gender, race, age, skill and educational attainment to ensure that a regulation implemented to improve the well being of the low paid does not ultimately create any substantial adverse effect, not only on the general employment level but also on each sub group.

The characteristics of the workforce profile of hospitality businesses in North Wales and North Manchester in this study seem to follow a similar pattern. Young workers are significant for employers in both areas and, as expected, there is heavier reliance on part-time and female workers. Therefore whether the area is rural or urban, young

workers play an important role in this industry. The only difference is that there are likely to be greater numbers of type of workers available in urban areas compared to the rural areas, hence the extent of employers' choice depends on the pattern of the labour market in their respective area.

Differences in wages between two different regions or areas, especially urban and rural areas, are inevitable. Low average wages are known to be a persistent occurrence in rural areas, thus the imposition of a NMW is expected to have greater consequences for a rural area in a low pay region as compared to an urban area. A number of the respondents in this study seem to be paying young workers at the youth development rate. This is unlike the findings of the study by Lucas and Langlois (2000) that observed "younger workers' pay on the whole was comfortably above the youth development rate, even for workers under 18, particularly in hospitality" (p63). There is clear evidence that the youth development rate is being utilised in North Wales (6) and North Manchester (2) by a sizeable minority, hence if any drastic changes to this rate occurred, it could have significant implications for the employers in these low paying areas.

In spite of any effect that the introduction of the youth development rate may have had on wages in a number of workplaces in North Wales and North Manchester, the vast majority of businesses did not indicate that this had led to any drastic changes in the overall level of employment. There was also no visible shift in favour of the employment of cheaper young labour at the expense of older workers in either the urban or rural area. At present, substitution of either group may not take place, although this might turn out to be otherwise in the near future.

The latest increase in the youth development rate did not result in any drastic measures being taken by employers in terms of employment practices in both North Wales and North Manchester. A majority of the employers who were affected by this increase were contemplating carrying out reactive/ad hoc actions by increasing prices of products/services or accepting a lower profit margin, rather than pursuing a strategic action of cost-minimisation or quality enhancement. Only one respondent raised the issue of having to increase wages in order to maintain pay differentials among employees. Training does not seem to be an important element of employment policy in the hospitality sector for firms in North Wales and North

Manchester. Therefore the introduction of the NMW has not in any way affected the resources allocated for training. Even for those who do provide training opportunities for their workers, the opportunity for employees to be involved in training has not adversely been affected.

It is important to note that as the findings of this pilot study are based on a small sample size, it does not represent the viewpoint of businesses in the hospitality sector in general. However, it does suggest the preferences and positions of businesses in the hospitality sector in terms of the NMW. At the current youth development rate of £3.20 per hour, employment practices of these businesses whether it is in rural or urban areas seem not to have been affected drastically. This may suggest that the minimum wage has not reached the pivotal point (at which it financially ‘bites’) whilst further increases in the rate may not guarantee the firms’ present employment practices. Therefore in general whether or not the minimum wage policy has an adverse affect on employment depends greatly on the level at which the minimum wage is set. The pilot study confirms that there is a need for further research in evaluating the implications of the NMW for young workers, and also for looking at the strategies undertaken by businesses, particularly in rural areas if there is a substantial increase in the NMW rate.

References

Bazen, S. and Martin, J.P. (1991), "The Impact of the Minimum Wage on the Earnings and Employment of Young People and Adults in France: 1963-1985", *OECD Economic Studies*, 16, 199-221.

Brown, C., Gilroy, C. and Kohen, A. (1982), "The Effect of the Minimum Wage on Employment and Unemployment", *Journal of Economics Literature*, 20(2), 487-528.

Brown, D. and Crossman, A. (2000), "Employer Strategies in the Face of a National Minimum Wage: An Analysis of the Hotel Sector", *Industrial Relations Journal*, 31(3), 206-219.

Card, D. (1992), "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-1989", *Industrial and Labor Relations Review*, 46(1), 38-54.

Card, D. and Krueger, A. (1994), "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania", *American Economic Review*, 84(4), 772-793.

Card, D. and Krueger, A. (1995), *Myth and Measurement: The New Wage Economics of the Minimum Wage*. Princeton: Princeton U.P.

Currie, J. and Fallick, B.C. (1996), "The Minimum Wage and the Employment of Youth: Evidence from the NLSY" *The Journal of Human Resources*, 31(2), 404-428.

Dawkins, P. (1997), "The Minimum Wages debate and Policy Developments in Australia, the UK and the US: An Introductory Overview", *The Australian Economic Review*, 30(2), 187-193.

Deakin, B.M. (1996), *The Youth Labour Market in Britain: The Role of Intervention*. Cambridge University Press.

Department of Trade and Industry (1998), *The Government's Response to the First Report of the Low Pay Commission*, Statement issued by Margaret Beckett, President of the Board of Trade, Thursday 18 June.

Dolado J., Kramarz, F., Machin, S., Manning, A., Margolis, D. and Teulings, C. (1996), "The Economic Impact of Minimum Wages in Europe", *Economic Policy*, 23, pp. 317-372.

Dustmann, C., Micklewright, J., Rajah, N. and Smith, S. (1996), "Earning and Learning: Educational Policy and the Growth of Part-time Work by Full-time Pupils", *Fiscal Studies*, 17(1), 79-105.

Edwards, P. and Gilman, M. (1998), "A National Minimum Wage: Stimulus to Economic Efficiency?", *Warwick Papers on Industrial Relations*, No 59.

Edwards, P. and Gilman, M. (1999) "Pay Equity and the National Minimum Wage: What can Theories Tell us?", *Human Resource Management Journal*, 9(1), 20-38.

- Fields, G. S. (1994), "The Unemployment Effects of Minimum Wages", *International Journal of Manpower*, 15(2/3), 74-81.
- Government Statistical Service (1999), "Labour Market Spotlight", *Labour Market Trends*, November.
- Hoque, K. (1999), "New Approaches to HRM in the UK Hotel Industry", *Human Resource Management Journal*, 9(2), 64-76.
- Hunter, P. and Kelly, P. (2000), *The Minimum Wage Handbook*. London: Unemployment Unit and Youthaid.
- Katz, L. and Krueger, A. (1992), "The Effect of the Minimum Wage on the Fast Food Industry", *Industrial and Labour Relations Review*, October, 46(1), 6-21.
- Kelloway, E.K. and Barling, J. (1999), "When Children Work: Implications for Youth, Society and Organisations", *IJMR*, June, 159-170.
- Levin, R. I. (1987), *Statistics for Management*. Prentice-Hall: New Jersey.
- Low Pay Commission (1998), *The National Minimum Wage*. First Report of the Low Pay Commission.
- Low Pay Commission (2000), *The National Minimum Wage: The Story So Far*. The Second Report of the Low Pay Commission.
- Lucas, R. and Lammont, N. (1998), "Combining Work and Study: an Empirical Study of Full time Students in School, College and University", *Journal of Education and Work*, 11(1), 41-56.
- Lucas, R. and Langlois, M. (2000a), *The National Minimum Wage and the Employment of Young People*. The Manchester Metropolitan University.
- Lucas, R. and Langlois, M. (2000b), *Much Ado About Nothing?: The National Minimum Wage and Young Workers*, BUIRA Conference, University of Warwick, July.
- Micklewright, J., Rajah, N. and Smith, S. (1994), "Labouring and Learning: Part-time Work and Full-time Education", *National Institute Economic Review*, May, 73-85.
- Mincer, J. (1976), "Unemployment Effect of Minimum Wages", *The Journal of Political Economy*, 84(4), Part 2: Essays in Labour Economics in Honour of H.Gregg Lewis, 87-104.
- National Statistics (2001a), *The Labour Force Survey: Employment Rates by Age*. London: the Stationery Office.
- National Statistics (2001b), *The Labour Force Survey: Historical Supplement 1984-2001*. London: the Stationery Office.

Neumark, D. and Wascher, W. (1992), "Employment Effects of Minimum and Subminimum Wage: Panel Data on State Minimum Wage Laws", *Industrial and Labour Relations Review*, 46 (1), 55-81.

Prasch, R.E. and Sheth, F.A (1999), "The Economics and Ethics of Minimum Wage Legislation", *Review of Social Economy*, 54(4), 466-487.

Reich, M., Gordon, D.M. and Edwards, R.C. (1973), "A Theory of Labour Market Segmentation", *The American Economic Review*, 63(2), 359-365.

Roberts, K. (1995), *Youth and Employment in Modern Britain*. Oxford: Oxford University Press.

Rubery, J. (1997), "Wages and the Labour Market", *British Journal of Industrial Relations*, 37(2), 337-366.

Sutherland, J. (1999), "Viewpoint – Investing in Young People: Some Changes and Some Challenges", *Education + Training*, 41(8), 348-358.

Watson, D. (2000), "U.K Wage Underpayment: Implications for the Minimum Wage", *Applied Economics*, 32, 429-440.