The national living wage in the uk

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The national living wage is the minimum that a worker aged either 25 or over should be paid per hour that they work. The new living wage was introduced by the UK government in 2016 and as of April 2018, the national living wage rose from £7. 50 per hour to £7. 83 per hour. The UK government has set a target that the national living wage should reach 60 per cent of median hourly earnings by 2020, which will be at the same level as France (Anon. 2015).

The introduction of the new national living wage could result in the wage bill of many retailers increasing, as those who were paying their workers minimum wage will have to increase the wage rate per hour in order to meet the new legal guidelines. This will bring about an opportunity cost for many retailers within the industry, as the funds that they will be using to cover the cost of their higher wage bill, could have been invested elsewhere within the business. Instead of paying staff more, retailers could have invested more into training its staff members to a higher standard, with the long-term goal being to improve the productivity of staff. An increase in the levels of productivity could lead to decreased unit costs for retailers, and providing all other things remain equal (ceteris paribus) profits with in the industry would rise. By going the other route of increasing staff pay, retailers won’t be able to benefit from the productivity gains achieved as a result of increased spending on training. This could have an impact on the retail industry, as it could lead to falling profits within the industry and in the long-run firms may have to shut down and leave the industry.

However, it could be argued that the introduction of the national living wage could have a positive impact on productivity throughout the retail sector. By paying workers a higher wage per hour, it could lead to workers feeling more satisfied in their job. As a direct result, workers within the industry could see their personal lives improve as they will have higher disposable incomes, and they have the ability to spend more on luxury goods that will help to maximise their utility. In the long-run the mental and physical health of workers within the retail industry could improve, which would then mean that the levels of absenteeism can decrease. Workers will also be able to focus more on their job as they will have less stress at home. With all of these factors combined workers within the retail industry could in actual fact become more productive. This would have a great impact on the retail industry, as if workers are becoming more productive through the service in which they provide then retailers will be able to lower their cost per unit, and in theory they will benefit from greater levels of profits.

Although there will be an increase in costs due to the implementation of the national living wage, the efficiency gains that retailers will experience in the long-run will outweigh the initial cost. In an article produced by the Financial Times in which a number of economists were asked their opinions on the implementation of the national living wage (O’Connor, S. 2016), Vicky Pryce who is the chief economic advisor at the Centre for Economics and Business Research, said that there was “ no real evidence” to suggest the implementation of the national minimum wage in 1999 had any “ negative effects on businesses overall”. Although the is somewhat speculative, it can be backed up by what David Cobham, who is a professor of economics at Heriot-Watt University, argued which is the idea that retailers within the industry can afford the increase. Due to there being “ no international competitiveness downside to raising the cost of labour” there will be a minimised effect on UK retailers as a result of the new national living wage.

The increase in costs that UK retailers will experience as a result of the new national living wage, will most likely see retailers find ways of offsetting the increase in order to maintain a level of profit that is suitable for the business and its shareholders. One of the ways they may potentially do this is by cutting staff numbers within stores. The staff who have been made redundant will be replaced new technology. The increase in use self-service tills, and of computer aided technology within warehouses has meant that “ automation that used to be expensive is now cheaper that the people it can replace” (Rodionova, Z. 2017). This could yield a positive impact on the UK retail industry, as firms will be able to minimise their costs and be more efficient in their operations as in the long run it is cheaper to operate machines than it is to have a lot of staff on a wage bill. Firms then have the option to pass on the gains in efficiency to the consumers or to maintain high profit levels, which would be of benefit to their shareholders. However, cutting staff could have a negative impact on the retail industry, as staff within the industry may not feel secure within their jobs. This could lead to higher absenteeism levels amongst UK retailers which will hinder productivity. Also by cutting staff in order to cut costs, retailers may see the standard of customer service they provide to consumers falling, which could directly affect sales.

On the other hand, UK retailers may not choose to cut staff in order to cover the increase in costs. They may in actual fact hire more people under the age of 25. This is as the new national living wage only applies to workers who are aged 25 and over. Workers under the age of 25, and over the school leaving age fall under the minimum wage bracket. It is more cost efficient for UK retailers to hire workers under the age of 25. This could have an impact on the UK retail industry as it could lead to people over the age of 25 struggling to get a job within retail. However, on the flip side it could provide retailers with a more flexible workforce, as they can hire part time workers under 25 which would be cheaper than hiring a full-time worker over 25.

In conclusion, the implementation of the national living wage will have an impact on the UK retail industry. As a result, we are likely to see retailers looking for ways to cover the cost of paying workers more. There is the potential for staff cuts throughout retail, and a drift towards automation. Overall, it will have a positive impact on a majority of workers who will be better off than they were before the National Living Wage was implemented. Although retailers will experience rising costs, there are ways in which they can cover these costs in both the short run and the long run. This will minimise the negative impact that will be placed upon UK retailers, and in the long run there is a greater potential for efficiency gains through automation.