ReWAGE

Policy Brief
Beyond the National Living Wage – Further Proposals for Addressing Low Pay

Summary

This policy brief welcomes the government's decision to increase the living wage to £9.50 per hour from April 2022, the adjustment of the Universal Credit taper, and its commitment to reduce the qualifying age for the National Living Wage to 21 years of age and to peg it at two thirds of median hourly pay by 2024. However, the UK still has an enduring low pay problem and a growing problem of in-work poverty, which the current rise in inflation and cost of living will only exacerbate.

The policy brief puts forward six sets of recommendations for changes in public policy to help the low-paid, which are focused directly on pay and the laws, regulations, institutions and practices which affect what people are paid.

Policy recommendations

1. Strengthening enforcement of the National Living Wage
2. Promoting the Voluntary Living Wage
3. Increasing and stabilising working time
4. Providing opportunities for pay progression
5. Improving statutory sick pay
6. Introducing industry level pay-setting institutions

Rationale

Improving conditions for those who are low paid should be at the heart of a socially just labour market policy. Many low-paid workers performed essential jobs during the covid pandemic and workers in these occupations had a disproportionate risk of infection as a result.[1] The adverse economic consequences of the pandemic, including job and income losses, have also been felt disproportionately by those who are low paid.[2] Action to improve their situation would help redress this situation. In addition, low pay often arises from and reinforces other forms of labour market disadvantage, and policy to address it can help tackle structural inequalities, grounded in sex, ethnicity, disability, and age[3] Taking further steps to tackle low pay is therefore good public policy that will lead to greater fairness in the labour market.

Tackling low pay not only makes the labour market more just; it can also make it more efficient. The measures outlined above can help address the labour supply problems that are endemic in several low-wage industries, support a policy of raising productivity and generate positive multiplier effects in parts of the country with concentrations of low-wage employment.[4] There are likely also to be fiscal benefits from lifting a higher proportion of the workforce out of low

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1 Whitehead, M., Taylor-Robinson, D., and Barr, B. (2021). 'Poverty, health and Covid-19', *British Medical Journal,* 372: n376, 1-2.

2 Wilson, T. and Buzzeo, J. (2021). The Impact of the Covid-19 Crisis on Low-paid and Insecure Workers. Brighton: Institute of Employment Studies.

3 Cominetti, N., McCurdy, C., and Slaughter, H. (2021). Low Pay Britain 2021. London: The Resolution Foundation; Woodhams, C., Lupton, B., and Cowling, M. (2015). 'The snowballing penalty effect: multiple disadvantage and pay', British Journal of Management, 26(1): 63-77.

4 Forth, J. and Rincon Aznar, A. (2018). Productivity in the UK's Low-wage Industries. York: Joseph Rowntree Foundation; Hunter, P. (2021). The Living Wage Dividend: Maximizing the Local Economic Benefits of Paying a Living Wage. London: Smith Institute.

pay. Compared to other developed countries, the UK is distinguished by a low productivity-low pay dynamic within its labour market. Addressing the issue of low pay in the concerted manner outlined above would assist in moving to a fresh, more productive equilibrium.

Context and recommendations in detail

In November 2021 the UK Government accepted the recommendation of the Low Pay Commission to raise the National Living Wage to £9.50 per hour from April 2022, alongside other increases for workers aged under 23. In addition, the Government adjusted the Universal Credit taper - which has the effect of raising the value of the net wage increase for many low earners. It also reaffirmed its commitments to reduce the qualifying age for the National Living Wage to 21 and to peg it at two thirds of median hourly pay by 2024.

These decisions are welcome and significant. The increase in the National Living Wage will deliver a 6.6% rise in hourly pay and more than two million low-paid employees are expected to benefit from the raise.[5] The policy of increasing the 'bite' of the minimum wage, moreover, has reduced the percentage share of low-paid employment to its lowest level since the 1980s.[6] The UK now has one of the highest statutory wage floors in the developed world.[7]

Despite these welcome developments, the country still has an enduring problem of low pay. According to the Resolution Foundation[8], 14% of jobs were paid at a rate below two thirds of median hourly pay in 2020 while 21% of jobs were paid below the voluntary Living Wage, which is based on a calculation of the expenditure needs of low-wage households. Jobs performed by women, young workers, those working part-time or on temporary contracts, and jobs in hospitality, retail, leisure, personal services, and business support services are particularly likely to be low paid. There is also evidence of a growing problem of in-work poverty, in which a rising proportion of households with a wage earner fall below the poverty line.[9] Moreover, full-time work has become less effective at protecting households against 'deep poverty'.[10] The current rise in inflation will exacerbate these problems, reducing real income and cutting living standards for many low-paid employees.

To help address the continuing problem of low pay, we put forward six sets of recommendations for changes in public policy to help the low-paid. Some of these recommendations could be adopted in the immediate future, while others propose longer term reform of low-wage labour markets. What unites them is that they focus directly on pay and the laws, regulations, institutions and practices which affect what people are paid. Other measures that can affect the incomes of the low-paid, such as fiscal, benefit, transport, or social policy are not considered here though can play a crucial part in improving living standards.

1. *Strengthening enforcement of the National Living Wage*

   While the National Living Wage has proved effective at raising the pay of many low-paid employees there is evidence of a substantial and growing problem of non-payment.[11] The recent appointment of a new Director of Labour Market Enforcement provides an opportune moment to reverse this trend and ensure that all those entitled to the National Living Wage receive it. More effective enforcement is likely to flow from investing in the inspectorate employed by HMRC, targeting activity at points in the economy where non-compliance appears to be serious and systemic, and through 'co-enforcement', whereby trade unions

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5 Low Pay Commission (2022). Low Pay Commission Report 2021. London: Low Pay Commission.
6 Cominetti, N., McCurdy, C., and Slaughter, H. (2021). Low Pay Britain 2021. London: Resolution Foundation.
7 Low Pay Commission (2022). Low Pay Commission Report 2021. London: Low Pay Commission.
8 Cominetti, N., McCurdy, C., and Slaughter, H. (2021). Low Pay Britain 2021. London: Resolution Foundation.
9 Department for Work and Pensions (2021). Households Below Average Income (BAI), 1994/95-2019.
10 Edmiston, D. (2021.) 'Plumbing the depths: the changing (socio-demographic) profile of UK poverty', Journal of Social Policy, doi:10.1017/S0047279421000180.
11 Low Pay Commission (2021). Non-compliance and Enforcement of the National Living Wage. London: Low Pay Commission.

and community organisations are enlisted to monitor employer behaviour and identify cases of non-payment.[12]

In addition, the Resolution Foundation has suggested the following measures:

1. Increasing the 'shaming' element of enforcement by using Government social media to highlight cases of non-payment.
2. Making large businesses jointly liable for cases of non-payment in their supply chains, exposing them both to shaming and to being fined if they tolerate non-payment by suppliers.
3. increasing the severity of financial sanctions for non-payment through more frequent prosecutions resulting in heavier fines.[13]

Government could also improve both employee and business awareness of the statutory minimum rates by investing in a national advertising campaign via print and digital platforms. A problematic feature of enforcement of the minimum wage is the low number of employees who come forward: providing more information and support for those experiencing under-payment is necessary.

Not only will stronger enforcement increase wages for those being exploited, but it will also help to reduce competitive pressures on other firms who might hold down wages due to unfair competition from those who break the law.

2. Promoting the voluntary Living Wage

A number of other, voluntary 'living wages' have been promoted in recent years, the most successful of which has been the Living Wage standard advocated by the Living Wage Foundation. This standard is higher than the National Living Wage, standing currently at £11.05 in London and £9.90 in the rest of the UK. Unlike the National Living Wage, it is based on the Minimum Income Standard (MIS) methodology for calculating the expenditure needs of low-wage families.[14] Furthermore, it commits employers to paying the rate to all workers aged over 18 and to contract workers who work on their premises, such as cleaners, security guards and catering staff.

Adoption of the voluntary Living Wage has been quite widespread amongst employers. Between 2011 and 2021, 11,000 were accredited as Living Wage Employers. These employers directly employ more than three million workers. A feature of the campaign to promote the Living Wage is the support of public authorities, which has encouraged other employers to adopt the standard.[15] The Scottish and Welsh Governments, English Regional Combined Authorities, and a number of local councils have used a variety of methods to increase adoption of the Living Wage.

There is scope for the UK Government to provide further impetus to the campaign by adopting some of these methods, including:

[12] Fine, J. and Bartley, T. (2018). 'Raising the floor: new directions in public and private enforcement of labor standards in the United States', *Journal of Industrial Relations*, 61(2): 252-76.
[13] Slaughter, H. (2021). *No Shame, No Gain? The Role of Reputation in Labour Market Enforcement*. London: Resolution Foundation.
[14] Hirsch, D. and Valadez-Martinez, L. (2017). *The Living Wage*. Newcastle: Agenda Publishing.
[15] Heery, E., Hann, D., and Nash, D. (2020). 'Political devolution and employment relations in Great Britain: the case of the Living Wage', *Industrial Relations Journal*, 51/5: 391-409; Johnson, M., Rubery, J. and Egan, M. (2021) Raising the bar? The impact of the UNISON ethical care campaign in UK domiciliary care. *Transfer: European Review of Labour and Research*, *27*(3), 367-382.

1. The devolved national governments subsidise local authorities to pay the Living Wage in adult social care. The cross-party Future Social Care Coalition is urging the UK Government to spread this practice across the country to ensure that the Living Wage becomes the entry wage for the entire social care sector.
2. The use of 'social licensing', in which the award of contracts, grants and funding is dependent on payment of the Living Wage. It is a feature of the Fair Work First policy adopted by the Scottish Government.[16] It could readily be incorporated into UK Government procurement and the programme of infrastructure spending to further 'levelling up'.
3. Local authorities, such as Birmingham, Bristol, Cardiff, Dundee, Edinburgh, Salford and Southwark have been at the forefront of 'place-based' Living Wage campaigns, in which 'anchor institutions', large local employers, undertake to both pay the Living Wage and promote it amongst local suppliers. UK Government departments and agencies could also participate in place-based initiatives and assume this anchor role, particularly when they are relocated to parts of the country with extensive low-wage employment.
4. Political leaders have used their influencing and convening powers to promote the Living Wage, a role exemplified by Boris Johnson when he was Mayor of London and adopted by other elected mayors since. Advocacy by elected politicians at UK-level would scale up this effort and give further impetus to the spread of the voluntary Living Wage.

3. Increasing and stabilising working time

Low rates of pay are exacerbated by difficulties of working time, and it is notable that the improvements seen in hourly pay in recent years have not been reproduced with regard to overall weekly pay: while 14% of employees earn less than two thirds of median hourly pay, 26% earn less than two thirds of median weekly pay (Annual Survey of Hours and Earnings 2021). Moreover, there is evidence of some employers reducing working time in response to increases in the statutory minimum wage.[17]

There are two problems with working time. First, many employees work too few hours, performing 'mini-jobs' that curtail their earning capacity; an effect that leads to the holding of multiple low-wage jobs by a substantial proportion of low-paid employees.[18] The Lower Earnings Limit, below which National Insurance Contributions are not paid by either employer or employee, plays an important part in creating jobs of this kind. Second, many employees have unpredictable hours and an increasing number are hired on zero-hours contracts or other forms of precarious employment that make it difficult to plan expenditure, rendering people vulnerable to indebtedness (Labour Force Survey 2022). Low-paid workers are particularly likely to experience 'pay volatility'.[19]

These problems could be addressed by action in areas that are often considered beyond the immediate employment sphere. Better childcare provision and improved transport would allow employees to access jobs with longer and more stable hours and reduce the monopsony power of employers. The problems of short and unpredictable hours can also

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[16] Scottish Government (2021). *Fair Work First Guidance: Supporting Implementation of Fair Work First in Workplaces across Scotland*. Edinburgh: Scottish Government.

[17] *McBride, J and Smith, A. (2021) '"I feel like I'm in poverty. I don't do much outside of work other than survive": In-work poverty and multiple employment in* the UK'. *Economic and Industrial Democracy,* https://doi.org/10.1177/0143831X211016054.

[18] Smith, A. and McBride, J. (2021) '"Working to live, not living to work": Low-Paid multiple employment and work–life articulation', *Work, Employment and Society*, 35(2): 256–276.

[19] Tomlinson, D. (2018). *Irregular Payments: Assessing the Breadth and Depth of Month to Month Earnings Volatility*, London: Resolution Foundation; Anderson, D. (2021). *Low-paid Workers and the Growth of Insecure Work*. London: Living Wage Foundation.

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be addressed directly through employment policy. The UK Government commissioned the Taylor Review of Modern Working Practices to formulate policy to deal with problems of this type and has implemented some of its recommendations.[20] However many of its recommendations have not been acted upon, and the UK has been notably less ambitious than other developed countries in seeking to protect its workforce from fragmented and precarious work.

In our view, the Government should consider:

1. Removing the employer exemption from National Insurance Contributions for the lowest paying employment to reduce the incentive to create jobs with very short hours.
2. Require employment contracts to reflect actual hours worked within a set period from the start of a job.
3. Provide employees with a legal entitlement to minimum hours, enforceable through a statutory procedure.
4. Require employers to provide reasonable notice of forthcoming work schedules, with compensation if shifts are cancelled or curtailed at short notice.

These measures would represent an important step towards stabilising working time.[21]

4. Providing opportunities for pay progression

Many workers pass through low-paid work enroute to better paid employment. For others, low pay is a long-term condition, especially those from minorities or with low formal education and qualifications.[22] There is a need to make low-paid work more transitional, such that workers can exit from it, moving from low-paid occupations to occupations with higher pay.[23] Another problem is that many organisations with low-paid workers have very flat pay structures, with single rate pay-grades that allow minimal scope for progression either through promotion or by earning increments through performance, experience or the assuming of line management responsibility. Even when a career structure based on formal qualifications exists, the pay reward for becoming better qualified may be nugatory.[24]

What can be done to address these problems? The issue of employees becoming trapped in low-paid work can be tackled in the first instance by removing policies that compel people to take up low-paid work, such as highly conditional benefit provision for those who lose their jobs. They can also be addressed more positively by the following measures:

1. Greater public investment in active labour market policies that encourage both transitions back to work and movement from low-paid to higher paid employment through the enhancement of skills. The UK currently invests less in policies of this type than all

[20] Taylor, M., Marsh, G., Nichol, D., and Broadbrent, P. (2017). *Good Work: The Taylor Review of Modern Working Practices*. London: Department of Business, Energy, and Industrial Strategy.

[21] Low Pay Commission (2018). A Response to Government on 'One-Sided Flexibility'. London: Low Pay Commission.

[22] D'Arcy, C. and Finch, D. (2017). *The Great Escape? Low Pay and Progression in the UK's Labour Market*. London: Social Mobility Commission; Shildrick, T., MacDonald, R., Webster, C., and Garthwaite, K. (2010). *The Low Pay, No Pay Cycle: Understanding Recurrent Poverty*. York: Joseph Rowntree Foundation.

[23] In-Work Progression Commission (2021). *Supporting Progression out of Low Pay: A Call for Action*. London: Department for Work and Pensions.

[24] Kessler, I., Bach, S., and Griffin, R. (2020) *Apprenticeships in the Pay Review Body Workforces*, London: Office of Manpower Economics.

equivalent European countries.[25] An objective of policy should be to close this investment gap.

2. Investment in skills development should be reinforced by the creation of industry-wide career structures based on formal qualifications that allow employees to progress from low-paid to better-paid employment within industries. The framework of linked apprenticeships in health and social care that support progression from care assistant to nursing roles provides a good example that might be adopted in other industries.[26]
3. Industry career structures, in their turn, must be reinforced by transparent pay structures that enable low-paid workers to increase pay as they enhance their skills. There has been a long-term trend in the UK to detach the framework of formal qualification, developed at industry level, from the management of pay, largely determined within individual businesses. We believe it would be beneficial to bring these two features of the labour market back into alignment, with qualifications, job classifications and pay grades set at the industry level.
4. An inducement for employers to participate in the process of building formal structures of pay progression for low-paid workers might be provided through a reform of the apprenticeship levy. The levy could be recast as a training levy and employers allowed to use it to fund the broader training needs of low-paid workers that fall outside the apprenticeship system. The scheme might also be relaxed to cover 'backfill costs', incurred when apprentices are away from the workplace at college or on placements. These costs, at present, can render the offer of mid-level apprenticeships - the kind that are needed to provide career structures for low-wage employees – uneconomic for many employers.

5. Improving statutory sick pay

Many low-paid workers do not have access to employer-provided benefit schemes and so are reliant upon minimum statutory provision, such as Statutory Sick Pay (SSP). Indeed, low-paid workers may not even qualify for SSP when they fail to meet the necessary earnings threshold. Even when employees do qualify for SSP, there is a four-day delay before entitlement kicks in and the level of payment is ungenerous, at a very low level compared with that of other developed economies.[27] The coronavirus pandemic has exposed the risks of this situation, with low-paid employees contributing to the spread of infection because they could not afford to take time off work when they had the virus.[28]

In the light of this situation, there is growing pressure on policymakers to reform SSP. The Resolution Foundation has suggested recasting SSP from a notionally insurance-based to a collective benefit, designed to afford population protection from infection (Brewer and Gustafsson 2020).[29] There has also been effective recognition that the present system is inadequate through the introduction of the £500 per week Test and Trace Support Payment for those required to self-isolate. Specific changes that should be made to SSP are:

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25 Bouget, D., Frazer, H., Sabato, S., VanHercke, B. (2015). *Social Investment in Europe: A Study of National Policies*. Brussels: European Commission; OECD (2021a). 'Building inclusive labour markets: Active labour market policies for the most vulnerable groups', *OECD Policy Responses to Coronavirus (COVID-19)*, Paris: OECDs, https://doi.org/10.1787/607662d9-en; OECD (2020). *Paid Sick Leave to Protect Income, Health and Jobs through COVID-19*. Paris: OECD.

26 Kessler, I., Bach, S., and Griffin, R. (2020) *Apprenticeships in the Pay Review Body Workforces*, London: Office of Manpower Economics.

27 OECD (2020). *Paid Sick Leave to Protect Income, Health and Jobs through COVID-19*. Paris: OECD.

28 Adams-Prassl, A., Boneva, T., Golin, M., and Rauh, C. (2021). *The Value of Sick Pay*. Discussion Paper Series No. 14808. Bonn: Institute of Labour Economics.

29 Brewer, M. and Gustafsson, M. (2020). *Time Out: Reforming Statutory Sick Pay to Support the COVID-Recovery Phase*. London: Resolution Foundation.

1. Increasing the level of SSP – the Trades Union Congress recommends a weekly payment based on the level of the voluntary Living Wage.[30]
2. Reducing the amount of time before SSP can be claimed from four days to the first day of sickness.
3. Extending entitlement to SSP to those who currently do not qualify because they are paid below the Lower Earnings Limit.

Reform of SSP should be an imperative, an essential step towards creating a more resilient and inclusive economy

6. Industry level institutions

Low pay is concentrated in specific industries. The Low Pay Commission has identified retail, hospitality, cleaning and social care as being particularly affected. Other industries with high concentrations of low-wage workers include agriculture, private security, leisure and personal services. This pattern implies that attempts to address the problem of low pay should focus on specific sectors. One way of doing so is to create industry-level pay setting institutions in low-paid industries. In the past, the UK possessed institutions of this kind, such as wages councils and industry level collective bargaining, and there is a fresh appreciation of the value of meso-level institutions amongst policymakers both in the UK and elsewhere.[31] New Zealand's experiment with Fair Pay Agreements is a useful example.[32] It is recognised increasingly that industry-level institutions can support well-functioning occupational labour markets, reduce transaction costs for employers, and take wages out of competition.

Industry-level institutions can assume a variety of forms and we do not wish to be over-prescriptive but the design of machinery of this kind might be informed by the following principles:

1. Industry wage-setting institutions should be representative, based on membership organisations. These organisations should include employers' organisations, trade unions and possibly organisations of clients or commissioning bodies or representatives of consumers.
2. The task of these organisations should be to agree a body of substantive regulation to govern pay setting and other aspects of the employment relationship in low-wage industries. This regulation may take the form of a collective agreement between employer and union 'sides' or a code of practice to which multiple stakeholders commit, including client organisations and public bodies responsible for commissioning services.
3. The purpose should be to set a pay structure for the industry, not just a minimum rate, which can form the basis of occupational careers and be integrated with a set of industry-wide training and qualification arrangements in the manner outlined above.

The aim would be to develop a core set of employment conditions that could be easily communicated to and implemented by the sector's employers.

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30 TUC (2020). *Sick Pay for All: How the Corona Virus Has Shown We Need Urgent Reform of the Sick Pay System*. London: Trades Union Congress.

31 Brown, W. and Wright, C.F. (2018). 'Policies for decent labour standards in Britain', *The Political Quarterly*, 89(3): 482-489; Jacobs, K. Smith, R., and McBride, J. (2021). *State and Local Policies and Sectoral Labor Standards: From Individual Rights to Collective Power*. IRLE Working Paper #104-21. Institute for Research on Labor and Employment, University of California, Berkeley.

32 MBIE (2019). *Designing a Fair Pay Agreements System: Discussion Paper*. Wellington: Ministry of Business, Innovation, and Employment.

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About ReWAGE

- ReWAGE is an independent expert advisory group modelled on SAGE, which supports government's strategic response to the recovery and renewal of work and employment in the UK as it tackles the impact of Covid-19.
- Its recommendations cover: the maintenance and creation of jobs, improving the quality of jobs, ensuring that the workforce has the right skills to access those jobs, and access to training and jobs is available to all. Its scope covers employers, employees and the self-employed.
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