Low pay and insecurity in the UK labour market

Minimum wage increases have driven down the incidence of low hourly pay, but there has been much less progress elsewhere for low earners. Low pay is widespread among the self-employed, who do not benefit from the minimum wage and whose numbers have increased over the past 20 years. And there are several forms of work insecurity making life difficult for low-paid workers but would be considered totally unacceptable for higher paid workers to experience. ***Nye Cominetti, Rui Costa, Nikhil Datta*** *and* ***Felicia Odamtten*** *write that a policy agenda for low-paid workers in the 2020s should seek to address these problems.*

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The labour market recovery from the COVID-19 crisis has been rapid – if not complete. In 2021 there were concerns that ending the furlough scheme in September, with 1 million workers still furloughed, would lead to another spike in redundancies, similar to that seen in autumn 2020 when employers thought the scheme was ending. These concerns proved unfounded, and unemployment fell consistently throughout 2021. In the latest data, for the three months to March 2022, the 16+ unemployment rate fell to 3.7 per cent, the lowest rate since 1974.

The unemployment recovery has been broad-based. 'Lowpaid workers' (as proxied by broad occupation level) generally experience higher unemployment rates than mid- and high-paid workers – in 2019 the unemployment rate averaged 4.8 per cent for those from low-paid occupations, compared to 1.5 per cent for the higher paid. All groups saw unemployment rise in 2020 (peaking at 7.1 per cent for the low paid), but by February 2022 unemployment had mostly fallen back to 2019 levels. For mid- and high-paid groups unemployment is now at or below 2019 levels. For low-paid workers unemployment remains slightly elevated – 0.3 percentage points above 2019 level.

In 2021, the incidence of low hourly pay among employees fell to its joint-lowest level on record, thanks to fast rises in the minimum wage

Since the introduction of a higher minimum wage rate in 2016 (the 'National Living Wage'), the rate of low hourly pay has been falling fast. In 2021, the proportion of employees with hourly pay below two-thirds of the median (the main measure of low pay) fell to 13 per cent, the joint-lowest level on record, equal with 1975. The proportion of employees earning below the real Living Wage (as calculated by the Living Wage Foundation) fell to 17 per cent, the lowest level since 2010.

The rate of low hourly pay is set to continue falling as the minimum wage is lifted towards its 2024 target of two-thirds of median hourly pay among the age group covered. (Note that a minimum wage at this level won't quite cause the overall rate of low pay to fall to zero, because there will be some younger workers paid at the youth rates, and because some workers who are covered will be underpaid).

Alongside overall improvement in the incidence of low hourly pay, there are several occupations – including bar and kitchen work, childcare, and sales assistants – where the incidence of low hourly pay is high, and little changed on 25 years ago. Occupational upgrading (the relative growth of higher paid occupations) explains around 60 per cent of the overall fall in the incidence of low pay, with within-occupation change playing a lesser role.

Progress on low hourly pay is particularly welcome because the UK has had, until the last five years at least, a high rate of low hourly pay by international standards. According to OECD data, the proportion of full-time employees with 'low' earnings (again, defined as earning below two-thirds of the median) was 19 per cent, well above the OECD average of 15 per cent. This figure relates to 2019, since when the rate of low pay in the UK has fallen, so future updates to the international comparison should show the UK moving towards the OECD average, and perhaps even falling below it.

The incidence of low pay is still more common among some groups of employees than others, but gaps have closed fast – particularly for women

Progress on low hourly pay has been particularly rapid for groups of employees with lower rates of pay. In 1997, women were more than twice as likely as men to be in low hourly pay (31 per cent versus 14 per cent). By 2021, this gap had fallen to just 4 percentage points (15 per cent versus 11 per cent) as the proportion of women in low hourly pay halved over this time period. For full-time employees, the gap between men and women in the proportion in low pay has all but disappeared, falling from 9 percentage points in 1997 to 2 percentage points in 2021.

Low pay gaps have also narrowed between employees with higher and lower qualification levels. In 1997, workers with qualifications below GCSE level were 10 times more likely to be in low hourly pay than workers with degrees (39 per cent compared to 4 per cent); by 2021 this gap had fallen by a third. This convergence is both because the incidence of low pay among those with qualifications below GCSE has fallen sharply since 2015, and also because low pay among workers with degrees has trended upwards during the 2000s. By contrast, low pay gaps between workers with and without a disability have not changed.

Focus on the gig economy risks missing a larger group of low paid self-employed workers

Attention on the gig economy risks missing the full size of the low-paid workforce, particularly when it comes to low-paid self-employment, where there may be similar forms of insecurity as those faced by gig workers. In the 2019-20, 38 per cent of self-employed workers had low hourly pay (on the two-thirds of median measure), compared to 14 per cent of employees. This amounts to 1.6 million self-employed workers on low hourly pay, a third of the total low hourly paid workforce. This share has grown rapidly over the past 20 years. And while low pay is falling for employees, it is flat among the self-employed – and rising when it comes to low weekly pay.

Using new data from the Understanding Society dataset, we find that low paid self-employment covers a much larger number of workers than does the ‘gig economy’, which we estimate in 2019-20 included around 550,000 workers. Although, as has been demonstrated in the courts, gig workers are not a subset of self-employment, and many should rightly be considered workers, and entitled to the minimum wage and other protections. We find that less than half (40 per cent) of gig workers self-identify as self-employed.

Similarly, problems of hours insecurity go beyond zero hours contracts

In general, and compared to the incidence of low hourly pay, there has been much less progress on insecurity and job quality, even though the 2017 Taylor Review helped raise the prominence of these issues. And while concerns around insecurity have tended to focus on high-profile types of work such as zero hours contracts (and the gig economy, as mentioned above), issues of insecurity are broader. Examining different measures of work insecurity (job and contract insecurity, hours and pay volatility and hours insufficiency) the report finds that exposure to high levels of insecurity is concentrated among low paid workers and that this paradigm has seen no progress in recent decades.

Minimum wage

One of the concerns has been that, a rising minimum wage will lead to ever-increasing wage compression at the bottom of the labour market and the erosion of pay differentials between entry-level and more senior jobs. And furthermore, that this will have a negative effect on workers’ incentive to progress out of minimum wage jobs. It is the case that, over the long-term, the coverage of the minimum wage has increased, and also that the rate at which workers make minimum-wage escaping job moves has slowed (from around 70 per cent per year in 2000, to 50 per cent in 2019).

But encouragingly, these issues don’t seem to have intensified since 2016 when the National Living Wage was introduced, and since when the wage floor has increased faster. Coverage of the minimum wage has been flat since 2016, and the rate at which workers progress into above-minimum wage paying jobs has also been stable – as it has, in fact, for the last 10 years. There is also no evidence of progression rates falling in the lowest paying sectors, and this is even true among workers who stay with the same employer. This encouraging evidence as the UK continues on its path towards a higher minimum wage.

A new agenda for improving low paid work must focus on insecurity and the self-employed, as well as on the hourly rate of pay

This report has shown the dramatic changes in the low pay landscape brought about by an ambitious minimum wage policy. The overall evidence continues to suggest that this progress has not come at the expense of employment among the low paid, and we find that another potential concern – of wage compression at the bottom causing minimum wage workers becoming stuck in their jobs – does not seem to have worsened since 2016.

But there has been less progress on low weekly pay and low pay among the self-employed, where the minimum wage has a less direct impact. And low paid workers continue to experience significant problems of insecurity at work. A policy agenda for low paid workers in the 2020s should expand beyond the minimum wage to include these other areas. This will mean bringing more self-employed workers within the scope of minimum wage policy by making it easier to gain recognition of worker status, and helping workers on low hours to increase their hours. We will publish detailed policy proposals in a future report.

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Notes:

- *This blog post summarises Low Pay Britain, the Resolution Foundation's twelfth annual report taking stock of the state of low pay, produced in conjunction with LSE's Centre for Economic Performance (CEP) as part of the Economy 2030 Inquiry. The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at LSE. It is funded by the Nuffield Foundation.*
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