Low pay in the UK:  
The case for a three sector comparative approach

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**Abstract**

This paper represents a first attempt to examine empirically the comparative extensiveness of low pay in the third sector against the theoretical backdrop of both the generic labour market literature and the newly emerging specialist third sector literature. It shows that the third sector occupies an intermediate position between relatively high concentrations of low pay in the private sector and low concentrations in the public sector. These differences do not emerge simply because the categories of vulnerable workers identified in the generic labour market literature are less likely to be found in the third sector. Nor do they reflect differences in sectoral industry and occupation composition. Theoretical explanations for these differences are to be found in the third sector literature.

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Low pay in the UK: The case for a three sector comparative approach

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CONTENTS

Introduction 1
Existing approaches 3
Methodology 8
Results 11
Conclusion 16
Low pay in the UK: The case for a three sector comparative approach

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1 Introduction

The UK government is committed to combating low pay, and a national minimum wage (NMW) has been introduced which implements a legal threshold beneath which pay should not fall. The general level has been set at £3.60 and was implemented from April 1, 1999. There is also a minimum level of £3.00 per hour for 18-21 year olds; and a minimum level of £3.20 per hour for workers aged 22 and over for six months after starting a new job with a new employer if they are receiving accredited training (National Minimum Wage Act, July 1998). A NMW will apply to everyone – including those who work beyond retirement age – who receives regular guaranteed financial remuneration.¹

Yet, remarkably, no comparative work has yet been undertaken regarding the extent of low pay prevalent in different sectors of ownership of economic activity. By sector of ownership, we refer to arrangements for the ownership and control of the means of production, and assume that there are three major possibilities: the private, for-profit sector; the public sector; and the “third” sector, to use an increasingly popular label, which comprises independent, non-profit-distributing associations, charities and other voluntary groups (see Kendall and Knapp, 1995; and Salamon and Anheier, 1997 for in-depth discussion of concepts and definitions).

Low pay researchers to date have normally tackled the question by developing analyses with reference to a range of variables now widely understood to be associated with poor remuneration across the economy as a whole. This has included size of employer, age, gender and employment status, especially whether employment is full-time or part-time (MacLennon et al, 1983; Bazen, 1985; MacNeill and Pond, 1988; and Card and Kreuger, 1995). At the level of specific occupations, Sachdev and Wilkinson (1998, Appendix 3, p. 65) have identified categories vulnerable to low rates of pay, such as sales, catering and care assistants, cleaners and security guards. Finally, at the industry level, retail, hotel and catering and distribution trades and services have traditionally

¹An important contribution to the UK workforce – particularly in the third sector – is made by unpaid volunteers (Davis Smith, 1998). These workers may receive “expenses”, but have been explicitly exempted from the proposed legislation (Community Care, 26 March 1998, p. 22-23).
received most attention, although recently the situation in social welfare services has also been
acknowledged and analysed. In particular, Robson et al (1997) have recognised that 16 per cent of
low paid jobs (defined as receiving less than £3.20 per hour) are to be found in health, education
and public administration.

Why has sector of ownership not featured in these studies? To over-simplify, this focus can be
understood as emerging for two reasons. First, a priori theoretical expectations: mainstream
economic theory, which implicitly or explicitly frames discussions of economic phenomena, stresses
we should expect significant variation in wages particularly according to employer size, industry
and occupation, and employee age and qualifications. Most obviously, this is because of
technologically determined scale effects, inter-industry and occupation variation in supply and
demand conditions, and the tendency for human capital to be distributed unevenly between different
categories of workers.

Second, it also reflects an ex post empiricist reaction to how official statistics are routinely presented
and collated on these terms. Particularly important here have been time trends data, showing the
growth of some categories of employment at the expense of others, and where the expanding
categories involve significant concentrations of poorly paid workers. “Feminisation”,
“casualisation”, and the rise of the “hyphenated” worker, whose reward for a part-time job or jobs
with insecure status is low pay (Brown, 1997), are all examples of labels applied by empiricists to
the trends that seem to emerge from official data, as well as researchers’ own primary research.

This paper suggests that by ignoring sector of ownership, these studies overlook an important
dimension of labour markets. We present the theoretical case for taking sector of ownership
seriously in analysing low pay, and demonstrate empirically that there are important differences in
the prevalence of low pay between the private (for-profit), public and third sectors. The next section
reviews the character of work already undertaken at a sectoral level, notes evidence on the economic
and political significance of the third sector, and suggests that the range of different implicit and
explicit understandings can be represented by three simple theoretical propositions. Section three
describes the empirical approach to examining this question, discussing how the UK Labour Force
Survey was used to conduct sectoral analyses. The next section (section four) presents and
interprets our findings. There is a short conclusion which argues that our evidence suggests a three
sector model is an appropriate one for analysing low pay.
2 Existing approaches

Concern about the sectoral pay differentials have not been absent from public policy debates. Indeed, in some accounts, a primary motivation for one of the most important mega-trends in economic policy around the world – “privatisation” and “contracting out” – has been to secure a greater degree of labour market flexibility. The latter can, in part at least, be a euphemism for employing less workers, paying less and allowing employment conditions to deteriorate. Yet the vast bulk of studies of privatisation have focused on fields in which for-profit firms have emerged as the alternative to publicly controlled services in response to the compulsory competitive tendering legislation of the 1980s, and similar initiatives in other countries (see, for example, Tittenbrun, 1996 and Hodge, 1996 for ambitious attempts to conduct meta-analyses of this enormous body of literature).

Relatively little attention has been paid to the third sector’s comparative performance and costs in delivering public or other services. Where it has, in the social services field (see the reviews in Knapp et al, 1987; Knapp et al, 1990; and Kavanagh and Opit, 1998), labour market consequences have not been the analysts’ major concern. Moreover, because they have tended to focus on particular subcategories of social care provided for particular client groups (older people, people with learning difficulties and so on), these studies have not been designed to capture more broadly the consequences of sector of ownership for labour costs or low pay across the economy as a whole. Even in the US, traditionally at the forefront of research on the “non-profit” sector (Powell and Clemens, 1998; and Weisbrod, 1998), studies of contracting out have only rarely included explicit examination of costs and consequences using three sector models (Ferris and Graddy, 1987; Ferris and Grady, 1989a; and Ferris and Graddy, 1989b). Only very recently have serious attempts been made in the US to analyse sectoral (in this case, for-profit versus non-profit) variation in rates of pay which do not involve heroic assumptions and extensive guesswork (for economy-wide estimates, compare Johnston and Rudney, 1987; and Leete, 1999a, 1999b).

The broader, macro comparative sectoral perspective has been lacking for perhaps two reasons. First, UK economy-wide data has traditionally simply not been collected and classified in sectoral terms, so neither static nor time trends evidence emerge from empirical scrutiny of labour force data. Disney et al (1998) represents an exceptional attempt to examine low pay in the UK from a sectoral perspective, but adopts only a two sector (public versus non-public sector) approach. The only attempt to date to examine the extensiveness of low pay in the third sector was based on an isolated survey of registered charities, which was therefore not directly comparable with evidence on other sectors (Hems and Van Doorn, 1998). Typically, writers concerned with comparative monitoring of sectoral labour market developments have either simply described broad shifts in the
numbers of people employed in each sector charting the growth of the private sector at the expense of the public with no reference to pay at all (Hughes, 1996; and Hogwood, 1998); or speculated about sectoral pay differences and conditions without solid empirical data to back up their assertions (Benyon, 1997).

Second, while at least a private and public sector divide has long been recognised conceptually (even if not followed through into empirical operationalisation) in the UK, the third sector has either been completely ignored (outside the small stream of work referred to above in the social services field), or assumed to be too small to merit attention. This no doubt in part has reflected an assumption that any involvement such organisations have in the labour market is primarily to do with the mobilisation of unpaid volunteers.

However, this traditional indifference is no longer defensible. In political life as much as in academia, the third sector is in the process of being “(re)discovered” as an important economic, political and social actor. A “Compact” agreed between government and agencies claiming to represent the third sector’s interest in late 1998 signals its mainstreaming into UK public policy for the first time (Home Office, 1998).

Furthermore, the economic significance of the sector has now been demonstrated in absolute terms. In full-time equivalent terms, using a narrow, UK-specific definition, just over 2 per cent of all paid employment is to be found in the third sector, and using a broader internationally relevant definition, the figure stood at just over six per cent, slightly below the EU average (Kendall with Almond, 1998; and Salamon and Anheier, 1998). Moreover, between 1990 and 1995, the third sector grew at a rate comparable to finance, computing and technology, and there are now almost as many paid workers in the sector as volunteers. Furthermore, while many routine sources of official data still fail to differentiate along sectoral lines as noted in the introduction, this is no longer the case with the single most important source of labour market data in the UK, the Quarterly Labour Force Survey. Since the mid-1990s, this has begun to distinguish employment on a sectoral basis – although this data has not yet been published in this form in official publications, and is only now beginning to be utilised by researchers (Almond and Kendall, 2000).

Finally, particularly from the 1980s onwards, a body of economic and sociological theory had begun to develop around the role and behaviour of the third sector in the context of wider developments in social policy, which give a point of departure in seeking to interpret the data that are becoming available. In general, these theories help us understand why the third sector may operate in some fields and not in others, and alert us to why within a given field behaviour may differ from that
Low pay in the UK: The case for a three sector comparative approach

exhibited by the public and private sectors (for example, see Ben-Ner and Gui, 1993; and Weisbrod, 1998), or converge or coincide with it (DiMaggio and Powell, 1991; 6, 1996; and Kramer, 1998).

In the US, an offshoot of this general literature has been the development of arguments concerning sectoral distinctiveness in the labour market from an economic perspective (Steinberg, 1997; and Leete, 1999a, 1999b), as well as from a sociological one which has begun to put gender concerns on the agenda (Odendahl and O’Neill, 1993).

Three propositions

At the broadest level, three competing propositions can be said to emerge from these literatures.

First, there is the sector doesn’t matter perspective. This could be said to be implicit in most applied research, which ignores the sector completely, either because it chooses to focus only on fields of economic activity in which the private sector is active, or because it confuses and/or conflates sector of ownership with industry field (Benyon, 1997; and Pinch, 1997). It is explicit in the views of writers on privatisation who argue that it is the presence or absence of competition in organisations’ proximate environment which is the main factor affecting costs (including labour costs), rather than sector of ownership per se (Tittenbrun, 1996; and Hodge, 1996). It is also explicit in those arguments from within the third sector and social policy literature which emphasise the powerlessness of different agencies, regardless of their sector of ownership, to resist the “isomorphic” tendencies of much broader and deeper social forces: amongst the drivers are capital (Wolch, 1990, 1999); the state, the professions and pervasive uncertainty (DiMaggio and Powell, 1991; and recently, see Kramer, 1998); and a multitude of economic, political and cultural pressures grouped under the banner of “globalisation” (Waters, 1995). These include competitive pressures to limit public spending, and hence limit or force down wages in publicly funded welfare industries – not just for “privatised” services, but for those those areas in which workers are still employed directly by the state (Oxley and Martin, 1991, cited in George, 1996, p. 21; see Pierson, 1998, for a useful review of the literature on the impact of globalisation on welfare states).

This view does not predict that, at the economy-wide level, we should expect to observe the same likelihood of low pay in each sector. Rather, it suggests that low pay will be concentrated in sectors of the economy where those attributes already known to be associated with low pay – ultimately, at least in part because of the broader pressures and forces referred to above – are to be found. Thus a sector relatively more active in competitive markets, comprised of comparatively more women, part-timers, young people, small employers, and low pay-prevalent industries and occupations (including social welfare) would be expected to involve the highest concentration of low pay at the economy-wide level. By this logic, the employee’s chances of being low paid are not expected to depend on
the ownership sector of their employer at all, once it is known into which category or situation they fit.

A second proposition would be that one would expect to find both differences at the economy-wide level, and between public sector and all other workers (see for example, Disney et al, 1998). Most well rehearsed are the arguments that have animated the “privatisation” debate, especially around welfare services (see literature referenced above). These raise the expectation of significantly lower prevalence of low pay inside the public sector for given categories of workers, because that sector, as an employer, is thought to have meaningful room for manoeuvre to treat its workers differently, despite the influences mentioned above. Most frequently, this is argued to involve some combination of political or ideological decisions to pay higher wages; the influence of more extensive unionisation or professionalisation; relative insulation from external competitive market forces (including through the creative avoidance of the intent of compulsory tendering regulations where those theoretically apply); and a crucial internal distinction, an absence of property rights, so that employers lack strong incentives to keep labour costs low (Niskanen, 1971). This argument typically adopts a two sector model, and to this extent would lead us to expect the significant difference to be between the public sector on the one hand, and “the rest” (implicitly including the third sector alongside the for-profit) on the other.

Finally, a third proposition would anticipate variation at the economy-wide level and between given categories of worker in all three sectors. This perspective draws on the third sector literature which, because it has mainly been developed in the US where the public sector is a relatively minor employer by European standards, focuses primarily on the distinctions that can be drawn between the third sector and the for-profit sector. However, while analysts in this area have in common that they take third sector “difference” seriously, the arguments they make leave the direction of the differential with the for-profit sector an open question.

On one hand, there are reasons to anticipate a higher probability of low pay could be expected in the third sector. First, higher levels of worker commitment or greater weighting given to non-monetary rewards could follow from these agencies’ tendency to adhere to ideological, political or religious goals as opposed to profit (James, 1987). Low pay might be more prevalent than in the for-profit sector because employees are willing to accept lower wages “for [their interpretation of] the greater good”. For a given wage bill, lower average pay means more workers can be employed, more clients or constituencies reached, and so more organisational goals, with which the employee empathises, achieved (Batsleer, 1995, p. 235). Less worthily, the superior compensatory non-monetary rewards that might be enjoyed could include more security, superior pension rights, fringe
benefits or opportunities for on-the-job leisure. Second, to the extent that these organisations are characterised by “philanthropic amateurism” (Salamon, 1987), involving failure to comply with wider societal standards because of a lack of professionalism or their relatively small-scale operation, we would expect poorer rates of pay to be more prevalent than elsewhere.

Conversely, the third sector literature also suggests reasons why low pay may be less extensive in this case. “Property rights” theorists (see Steinberg, 1987) have argued that wages may be higher in the third than in the for-profit sector because of the lack of incentives to constrain costs in the former case (like the public sector). Third sector agencies might also be expected to pay higher rates of pay because the typical worker has a greater stake in governance than their for-profit counterpart, or because there may be a tendency for “altruistic” or “solidaristic” tendencies to be expressed in more generous wage packets. A special case of this could arise with women employees: to the extent these agencies provide a special outlet for gendered power and entrepreneurship (McCarthy, 1996), we might anticipate that equal opportunities policy, with repercussions for pay, would make its presence felt more keenly in this particular sector.

Furthermore, two rationales for anticipating sectoral difference in the case of the UK emerge from empirical observation. First, when third sector and for-profit sector organisations co-exist in the same markets, the scale argument referred to above as an aspect of “amateurism” often can work in reverse: in many contexts, third sector organisations can be large, multi-field organisations, while the private sector alongside which it is operating is comprised of single purpose small business (residential care, and care for people living at home, in social care for older people are good examples: Kendall, 2000). We would therefore expect the former to systematically have greater access to both economies of scale and scope, and to be in a position to cross-subsidise activities, both of which could allow employers to have more discretion over rates of pay.

Second, the public sector has traditionally felt more comfortable working with the third sector than the for-profit sector in jointly delivering welfare services for vulnerable people because of perceptions of greater value compatibility (Wistow et al, 1996). To the extent shared values are followed through into actual application in the treatment of employees, we might expect extensive “shadowing” of public sector rates of pay by third sector employers, as manifested in the practice of “pay analogue” arrangements (Ball, 1992; and Batsleer, 1995) – with no, or at least relatively limited – parallel in the for-profit sector.

Finally, more generally third sector organisations’ tendency to be first movers and specialists in niche sub-markets may mean that on average they benefit from more market power in a product market than their for-profit counterparts. This can be the case in a given market, and is a separate
issue from the possibility of scale and scope effects (economies from operating simultaneously across different markets: Chandler, 1990) referred to above. For example, in the case of care for older people living at home, third sector organisations specialise in providing support for carers, as a niche within the more general domiciliary care market. This could have implications for the labour market in the sense that they are consequently positioned to enjoy a relatively powerful (monopsony or near monopsony) “derived demand” in their labour markets vis-à-vis employees. To the extent they use their relatively privileged bargaining position to fix wages below the “going rate” that prevails in the wider market, we would expect low pay to be more frequent in the third sector; conversely for some of the reasons noted above, we might anticipate that they would exercise their powerful position for the benefit of employees, offer wages above the “going rate”.

Against this theoretical backdrop, the following sections set low pay in the third sector in a comparative context, and explore which of these propositions best describes the way in which low pay is distributed between sectors in the UK economy.

3 Methodology

3.1 Data sources

Two obvious datasets with which to examine low pay in the UK are the New Earnings Survey and the Quarterly Labour Force Survey. We rejected the first option both because it fails to distinguish between employee’s sector of ownership, and because it does not cover workers outside of PAYE schemes, who comprise a significant proportion of the low pay population. The latter was chosen as the most comprehensive and nationally representative survey of employment in the UK. Moreover, as noted in section two, it has recently incorporated a question addressing respondent’s sector of employment since the second quarter of 1993. Almond and Kendall (2000) discuss details of instrumentation, definition and sampling in more detail, and in the balance of this section we concentrate only on those specific aspects of our handling of the survey data which relate to low pay.

The sample design consists of about 60,000 responding households in Great Britain and approximately 3,250 responding households in Northern Ireland, every quarter. Each quarterly sample of 60,000 households is made up of five ‘waves’, each of approximately 12,000 households. Each wave is interviewed in five successive quarters, such that in any one quarter, one wave will be receiving their first interview, one in their second, and so on, with one wave receiving their fifth and final interview. To maximise overall response rates, questions on income are only asked during fifth and final interviews.
In order to carry out an extensive statistical analysis of sector employment and low pay – involving disaggregations by demographic characteristics, and by industry, occupation and so on within each sector – data were pooled from the last nine available quarters at the time of the original research (spring 1995 to spring 1997). This gave an overall sample size for the working population of approximately 108,000, and just over 2,000 for the third sector.

**Industry, occupational and sector classifications**

Results are disaggregated by the SOC (Standard Occupational Classification) and the SIC (Standard Industrial Classification, 1992 version). We used a derivative of SIC92 which seeks to approximate to the International Classification of Non-profit Organisations (ICNPO: Salamon and Anheier, 1997; see appendix of Almond and Kendall, 1998 for details of the relationship between SIC92 and the ICNPO). The latter system was developed to facilitate cross national comparison of the “non-profit” sector, and aims to explicate *ex ante* from the economy as a whole those fields of activity in which non-profit activity around the world (and not just the UK) are concentrated. These third sector-relevant industries, which tend to involve the production of goods and services with some combination of quasi-public, trust and/or member-serving attributes (Ben-Ner and Van Hommissen, 1993), account for just under 90 per cent of (self-identified) third sector employment in the UK – but for only around one quarter of economy-wide employment (Kendall with Almond, 1998).

In the QLFS questionnaire, “sector” identification is a two-stage self-classification process that follows on from the industry (SIC) identification, with respondents classified into one of eight categories relating to both ownership and legal structure for their first (main) job only. In what follows, these categories are collapsed into four and then three sectors, grouping together legal structures under the relevant sector head. For example, partnerships, private companies and publicly quoted companies are separately distinguished in the data, but are grouped together in our analysis under the private sector.

**Other variables used in the statistical analyses**

The other variables (with categories) used in this paper to examine sectoral employment and low pay are age group (bands for 16-20 and 21-65), gender, educational qualifications (re-coded into degree or higher, none and all other qualifications), whether or not employment is part-time or full-time, size of employer (measured by number of employees), and hourly rates of pay. In the latter
case, we grouped employees into a small number of bands, and thereafter defined people as low paid if they fell below the £3.60 threshold set in the recent minimum wage legislation.²

**Income and hourly rates of pay**

In the QLFS, the basic hourly rate of pay is calculated from the division of ‘average gross weekly pay’ by ‘usual number of hours worked’. But this method excludes overtime payments. Since the number of hours of paid overtime – and not actual rates – is recorded in the survey, we therefore adjusted hourly rates of pay assuming an overtime rate of 1.5 (LPU, *The New Review*, Aug 1991) and then inflated to spring 1997 levels using the appropriate retail price index from the *Monthly Digest of Statistics* (1997).

**3.2 Interpreting the data**

Beneath the overall aggregates, we were interested in exploring the probability of being low paid for a given category of worker – being a woman, a part-time male worker, and so on – in its own right. But we were also interested in the probability of simultaneously being in such a category and being low paid, by sector. To establish this relationship, it was necessary to multiply the probability of being low paid for any variable by the weight of that variable within the sector. For example, if 60 per cent of female workers are low paid (the individual level), and female workers make up 60 per cent of a sector’s employment (the sector weight), the probability of being a low paid female working in the sector is calculated as 0.36 (60 per cent of 60 per cent).³

**Probability trees**

Probability trees (Figures 1–4) help us to see very clearly how the prevalence of low pay is associated with the balance of “vulnerable” categories of employee within each sector (see for example, Kazmier and Pohl, 1987, for a discussion of the general principles of, and rationale for, this approach). The branches of the tree represent each characteristic of employment examined. The product of the (conditional) probabilities attached to each branch in the tree provides the overall

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² In the literature, there are several definitions of what is regarded as being low paid and most include distributional aspects or relative rates of pay. The trade union definition of low pay is two-thirds the mean wage for males; the Low Pay Unit is two-thirds the median male wage; and the Royal Commission is the bottom decile. More recently there has been a move to define low pay close to that set by the Council of Europe of 68 per cent of mean male and female wages.

³ Using sector proportions and banded levels of income ignores some of the distributional aspects of ‘impact’. For example, many employees could be earning close to the £3.60 level and incur only small wage increases, and this could vary by sector.
probability of a set of particular employment characteristics at the sector level. This figure is provided in the last column at the end of the tree. 4

For some characteristics the tree approach becomes more complex and difficult to display visually, for example, occupational and industry classification which have many categories. In these cases we provide tables to present the final results.

4 Results

4.1 Overview of characteristics by sector

Table 1 compares the distribution of low pay – taken to mean pay below the new national minimum wage – between the three primary sectors, and also the residual “other non-private sector”. 5 It also puts the scope and scale of the sectors in perspective by showing the absolute numbers of workers employed in each case. The most striking contrast to emerge from this data is the concentration of low pay outside the public sector. Only slightly more than one in twenty employees in the public sector are low paid, and just one in fifty “ultra low paid” – that is, paid £2.50 per hour or less. Employees in the other two sectors are over three times as likely to be “ultra low paid”. This clearly supports the claim that low pay is less prevalent in the public sector than the private sector (cf Disney et al, 1998).

The table also alerts us, however, to a significant difference outside the public sector between the private and the third sectors. In absolute terms, other things being equal, low pay at an economy wide level is of course dominated by the private sector, simply because this massively outdistances the third sector in sheer scale: the data imply that 3.15 million private sector employees are affected, or nearly seven times as many people employed in the entire third sector as defined here (459,000).

4 Because we examine the probability of being low paid given an employee is in the public, private or third sector, we ignore the prior probability of being employed in any one sector. Multiplying any of the branch probabilities by this probability, which can be derived from table 1 (the proportion of total employment in each sector: 0.70 private sector, 0.27 public sector, 0.02 third sector) would provide economy-wide results. Finally, to see the absolute number of employees in a given category, the product of this prior probability and the relevant branch probability is simply multiplied by 21,957,00 the total number of non-self employed workers under 65 working in either the private, public or third sector (cf table 1).

5 In the analyses that follow, we focus only on the three sector results, to keep the presentation manageable. There are problems in interpreting the category “other non-private”, as this seems to include a mixture of for-profit and third sector organisations or agencies which combine features of both (such as mutual financial intermediaries and community businesses). Moreover, they only account for one per cent of all employment. See Almond and Kendall (2000) for a more detailed discussion.
But we can also see that proportionately fewer workers in the third sector are low paid. The table shows that this is primarily the result of a relative concentration of private sector employment at rates of pay bunched close to, or at a middle distance from, £3.60: while 10.4 per cent of third sector employees earn between £2.50 and £3.60, a higher proportion of private sector employees – 14.3 per cent - fall within this band. Overall, for every one low paid third sector employee, there are five such public sector employees and 41 private sector employees.

Having established these very broad absolute scale and proportionate affects, we demonstrate the extent to which these different relative impacts reflect contrasting concentrations in each sector of categories of workers well known to be more likely, at an economy-wide level, to be low paid. Here we concentrate on proportionate effects as opposed to absolute numbers. In other words, do these sectoral differences simply reflect the fact that the greatest concentration of “vulnerable” workers is to be found in the private sector; the lowest concentration in the public sector; and the third sector in between (proposition one)? Or do they seem to reflect differences by sector in terms of the rates of pay offered to the same categories of worker (propositions two and three)?

Gender and part-time work

Figure 1 first answers this question in terms of gender. What we observe is, firstly, a dramatic contrast between public sector and nonpublic sector employment: a woman working outside the public sector is almost three times as likely to be a low paid woman as one who works within it (in the final column, comparing 4 per cent with 12-13 per cent). However, the probability tree allows us to see clearly that while the proportion of all workers who are low paid women are very similar in both nonpublic sectors, this is in part because women account for a much higher proportion of all employees in the third sector. Working backwards to the penultimate branch of the tree, we can see that given an employee is female, she is significantly more likely to be low paid if working in the for-profit sector (just over a one in three chance) than in the third sector (just under one in six chance).

Conversely, while male low paid employees account for a larger proportion of all employees in the private sector (final column), we can see that this pattern is driven by the relatively low proportion of workers in the third sector who are male. Given one is male, the probability of being low paid is significantly different between the public sector and the rest, but there is relatively little difference between the third and private sectors in this case.

Figure 2 extends the analysis to take into account the balance between full-time and part-time employment. Given a worker is male and full-time, this shows that the chances of low pay are
identical in the third and the private sector (a one in ten probability). What drives the small difference referred to above is a sectoral difference in the propensity to pay low wages to part-time male employees: just over half of male part-timers in the for-profit sector are low paid, compared to just over a quarter in the third sector. For women, there is a significant difference between the sectors for both full-time and part-time workers, with low pay less prevalent in both cases in the third sector.

Taken together, this means that gender makes a bigger impact on the probability of being low paid in the private sector than in the third sector or the public sector. For full-time work, the chances of being low paid are ten per cent in the third sector and three per cent in the public sector regardless of gender, while in the for-profit case, women are nearly twice as likely to be low paid. In the case of part-time work, there is also relatively little difference in the probability of low pay in the public and third sectors, but in the for-profit sector a male part-timer is actually more likely to be low paid than a female part-timer.

**Age, qualifications and employee size**

The three other factors most often associated with low pay at the economy-wide level in the literature are age, extent of educational qualifications and employer size. Figure 3 shows that while low pay for young people is a significant issue in the private sector, it is relatively unimportant in the third sector. As the tree shows, this represents the outcome both of the relative scarcity of young employees in the third sector, and the fact that the young people who are to be found there tend not to be low paid. This latter finding is surprising, because the third sector is disproportionately involved in government training schemes for young people (Almond and Kendall, 1998), and these “trainees”, included here as employees, would typically be expected to be receiving low pay.

Focusing on education, the third sector emerges as something of a hybrid between the public and private sector cases. The middle branches of Figure 4 illustrate the extent to which workers in the sectors possess educational qualifications. Workers in the third and public sectors are qualified to a similar extent, and are markedly more qualified than their private sector counterparts, most acutely in the case of the likelihood of holding a degree of above. However, when we look at the tendency to be low paid for a given level of qualification, the third sector has more in common with the for-profit sector. That is, the proportion who are low paid for each of the three categories is very similar (and everywhere higher than the public sector). An interesting net sectoral effect to emerge is that the third sector is the only case in which more than one per cent of workers are human capital-rich, but current wage-poor: just under two per cent of all third sector employees fit this description, compared to just 0.5 per cent in the private sector and 0.2 per cent in the public sector.
Next, we looked at size of workplace (in this case, the results are presented in tabular form because a probability tree format becomes too dense – Table 2). This shows a very different relationship in each sector, with very little variation in the public sector, and a much steeper decline in the probability of low pay in the third sector as size increases compared to the for-profit sector. At the smallest scale, this proportion who are low paid outside the public sector is the same, although we see that because a greater percentage of third sector workplaces are very small, the net result is relatively more low paid workers in very small third sector workplaces as a proportion of all employees (nine per cent versus eight per cent). However, in the case of medium sized workplaces, a significant gap has opened out between the non-public sectors, with a much lower chance of low pay for establishments with 20–49 people. However, on reaching the largest category of 50 or more employees, the gap narrows once more, although the proportion in the third sector who are low paid in the size band remains smaller, at nine per cent compared to 12 per cent for the private sector.

4.2 Industry and occupational variation

Tables 3 and 4 show both how workers are distributed between third sector-relevant categories in terms of industry and occupation, and the proportion in each category who are low paid. It is important to note here that, because we are focusing only on those industries in which the third sector is a significant employer, we are deliberately excluding all but one of the categories of employment (retail, shown separately) which have actually received most attention in the literature on low pay (notwithstanding Robson et al (1997) recognition of the prevalence of low pay in social welfare fields): for example, hotel and catering, and the distribution trade and non-welfare service industries.

Most striking is the data in Table 3 showing that a worker in every single industry category is significantly less likely to be low paid if employed in the public sector than outside it. It also reveals systematic differences between the for-profit and third sector. Four fields dominate total levels of employment in the latter case – social services, education, health and religion (for more discussion, see Almond and Kendall, 1998).

Religion cannot be compared with other sectors, and the education figures are hard to interpret because significant numbers of employees whose employers are technically third sector

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6 These are subsumed under the “all other SIC92” row, which actually accounts for 87 per cent of for-profit employment, but is treated as a residual in focussing on third sector activities, since these tend to be concentrated in human welfare services.
organisations appear to regard them as private sector bodies. Focusing, therefore, on those areas where sectoral comparison is most meaningful, social services and health – which together account for over half (43 per cent plus 8 per cent) of all third sector employment – we do observe a very marked difference. In both cases, a worker is around three times as likely to be low paid if their employer is a for-profit organisation than if they are a third sector one.

Table 4 reveals a rather less clear cut sectoral pattern at the level of occupations (including those 20 categories which together account for half of all third sector employment (which emerge as covering just over and just under a quarter of all private and public sector employment respectively)). Three of the occupations associated primarily with social services – care assistants and attendants, welfare, community and youth workers (the two single largest third sector occupations) and social workers and probation officers – adhere to the same pattern: lowest probability of low pay in the public sector, highest in the for profit sector, with the third sector in between.

Other occupations in the welfare field, however, have a different pattern: in the two childcare categories, playgroup leaders and “other childcare”, it is in fact in the third sector that the probability of being paid less than £3.60 per hour is highest. The former activity – like the “sales assistant” category where third sector low pay is also exceptionally prevalent in relative terms – could be seen as most unusual in the sense that the employment here is completely dominated by volunteers, while in other fields, paid workers tend to make up a proportionately much more significant share of the workforce. In this respect, it may be that the workers in question are in some sense “quasi-volunteers” or “paid volunteers”, and in some sense out of scope of our analysis (by the same logic that volunteers in general have been explicitly exempted from the national minimum wage legislation). In the case of playgroup leaders, it may often be the case that the employee’s own child benefits from the group. In the case of “other childcare”, however, it may be that low pay is more of a concern in the traditional sense. Finally, the data reveal that in one welfare category, assistant nurses, low pay in the third sector is actually slightly less widespread than in the public sector, but in both cases, at least four times less likely than in the for-profit case.

7 This is not to deny that low pay can be a problem in religion and education, but rather to indicate that we cannot look at this question from a sectoral perspective. Note that in education, in the case of the sub-field primary and secondary education, some 56 per cent of independent schools, accounting for nearly 90 per cent of all pupils and staff, are charitable organisations (Posnett and Chase, 1985), but our examination of four-digit level data suggested that a large proportion of the relevant employees, legally in the third sector, actually self-classified to the private sector. The charitable status of most independent schools remains a deeply controversial issue: see Kendall and Knapp, 1996, chapter 7 for a detailed discussion.
Besides the social welfare occupations and the sales assistant category, of those where all three sectors co-exist, two patterns dominate: first, like the welfare industries and occupations, we find most low pay prevalent in the for-profit sector, least prevalent in the public sector, with the third sector in between in the cases of cleaners, security guards and “other secretaries”. Second, in the three catering related occupations, we see that the probability of low pay is actually lower in the third sector than in the public sector. The data also reveal two further fields other than childcare and sales assistants in which the third sector involves proportionately more poorly paid workers than the public and for-profit sectors: “clerks not elsewhere classified”, and managers and proprietors in services. Strikingly, nearly one third of workers in this white-collar category are low paid.

In sum, the pattern in the largest social welfare occupations reflects the industry level findings: low pay most prevalent in the private sector, least prevalent in the public sector, with the third sector in between. Outside these areas the picture is less clear cut. But it is noteworthy that, overall, there is not a single occupation in which low pay is most concentrated in the public sector. Of the 16 occupations in which the three sectors co-exist, the probability of low pay is highest in the private sector in 63 per cent of cases, in the third sector in 25 per cent of cases, and the same in the remaining cases. The aggregated rows at the foot of each table reinforce this message: in ICNPO-identified third sector-relevant industries, and in the 20 largest third sector occupations, the third sector represents an intermediate case.

5 Conclusion

Economy-wide aggregate results show that low pay is a particular problem outside the public sector, but also indicates that there are significant differences amongst nonpublic employment as between the for-profit and the third sector. Above, under “Overview of characteristics by sector”, we demonstrated that, at an economy-wide level, these different low pay differentials do not emerge simply because vulnerable workers are disproportionately to be found in the for-profit sector. Indeed, in the economy as a whole, most of the recognised types of low paid workers are actually more concentrated in the third sector than in any other sector, so if sector did not matter there would be more low pay in the third sector than the for-profit sector. A key finding is that despite this relative concentration, there is actually less low pay in the third sector. This result is significantly driven by the higher probability of avoiding low pay in the third sector, given that the employee is one of the most vulnerable types of worker: in particular, a woman, young or a part-time worker.
However, there are exceptions to this general conclusion, where it is only being employed in the public sector that has made a significant difference in affording protection from low pay. The most important single category to fit this description are low paid workers in very small workplaces.

We also established (see “Industry and occupational variation” above) that this overall sectoral pattern is not simply a reflection of the third sector’s relatively limited involvement in what have traditionally been seen as the most problematic industries or occupations as far as low pay is concerned: hotel and catering, the distribution trade and non-welfare service industries, retail (where third sector involvement through charity shops is significant, but primarily with regard to volunteers), and related occupations. Rather, the pattern of disproportionate concentration of low pay in the for-profit sector, least low pay in the public sector, and the third sector as an intermediate case emerges even if one focuses on third sector-relevant industries and occupations as a group.

At the level of individual fields and occupations, the picture is rather more complex: while in most cases, low pay is disproportionately to be found in the for-profit sector (including those fields where the third sector is largest), and in no fields is the problem greatest in the public sector, there are some areas where the third sector involves the same or greater concentration of low pay than the for-profit sector. If we treat sales/retail and playgroup leaders as out of scope, the third sector can be seen to have a similar or disproportionate problem than the for-profit sector in four “blue collar” occupations: “other childcare”; clerks not elsewhere classified; accounts clerks; and catering assistants.

Taken together, this evidence provides little support for the first two propositions we set out in section two. Rather, it suggests that the second variant of proposition three provides a better overall description of reality: that is, not only does sector appear to make a difference as far as low pay is concerned, but a three sector model seems to make sense. The dominant pattern is consistent with the existence of some combination of a relatively high ability and/or willingness to avoid paying workers low wages in the third sector; only in a minority of cases is this relationship reversed or absent. It seems we can conclude that, where the third sector has some room for manoeuvre in the labour market, this power has, more often than not, been used to the direct benefit of employees.
References


Leete, L. (1999b). Wage Equity and Employee Motivation in Non-profit and For-Profit Organisations, paper in preparation, Mandel Center, Case Western Reserve University, Cleveland.


Table 1: Percentage of income bands by sector of employment\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>Public</th>
<th>Third</th>
<th>Other non-private</th>
<th>All sector total(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£2.50 or less</td>
<td>6.1</td>
<td>2.0</td>
<td>6.4</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>£2.51-£3.00</td>
<td>4.4</td>
<td>1.1</td>
<td>2.7</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>£3.01-£3.60</td>
<td>9.7</td>
<td>3.2</td>
<td>7.7</td>
<td>7.0</td>
<td>7.8</td>
</tr>
<tr>
<td>£3.60 and below</td>
<td>20.2</td>
<td>6.3</td>
<td>16.8</td>
<td></td>
<td>16.3</td>
</tr>
<tr>
<td>Above £3.60</td>
<td>79.8</td>
<td>93.7</td>
<td>83.2</td>
<td>85.5</td>
<td>83.7</td>
</tr>
<tr>
<td>Total %</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total employment (%)</td>
<td>15,605 (70.4)</td>
<td>5,892 (26.6)</td>
<td>458.9 (2.1)</td>
<td>223.9 (1.0)</td>
<td>22,180.5(^1) (100)</td>
</tr>
</tbody>
</table>

\(^1\) Excludes workers over the age of 65 and the self-employed.

\(^2\) Equal to the sum of each row as a proportion of total employment.
### Table 2: Probability of being paid ≤ £3.60 per hour by size of firm and sector of employment

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>Public</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 10</td>
<td>0.08</td>
<td>0.008</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>(0.35) (0.22)</td>
<td>(0.11) (0.07)</td>
<td>(0.35) (0.27)</td>
</tr>
<tr>
<td>11 to 19</td>
<td>0.03</td>
<td>0.007</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.25) (0.10)</td>
<td>(0.09) (0.08)</td>
<td>(0.16) (0.12)</td>
</tr>
<tr>
<td>20 to 24</td>
<td>0.01</td>
<td>0.004</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(0.25) (0.04)</td>
<td>(0.10) (0.05)</td>
<td>(0.08) (0.04)</td>
</tr>
<tr>
<td>Don’t know but under 25</td>
<td>0.004</td>
<td>0.001</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(0.30) (0.01)</td>
<td>(0.08) (0.01)</td>
<td>(0.31) (0.01)</td>
</tr>
<tr>
<td>25 to 49</td>
<td>0.02</td>
<td>0.009</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.21) (0.12)</td>
<td>(0.07) (0.13)</td>
<td>(0.12) (0.15)</td>
</tr>
<tr>
<td>Don’t know but over 24</td>
<td>0.002</td>
<td>0.001</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>(0.27) (0.01)</td>
<td>(0.11) (0.01)</td>
<td>(0.11) (0.02)</td>
</tr>
<tr>
<td>50 or more</td>
<td>\</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>\</td>
<td>(0.05) (0.66)</td>
<td>(0.09) (0.31)</td>
</tr>
</tbody>
</table>

1 Within each cell the top figure is the overall sector percentage. Figures in brackets show the calculations for sector percentage. The first figure is the probability of being paid ≤ £3.60 per hour given the row characteristic by sector, and the second figure the probability of the row characteristic by sector.
### Table 3: Probabilities of being paid \( \leq £3.60 \) by industry (ICNPO-derived) status by sector of employment\(^1\)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Private</th>
<th>Public</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture and recreation</td>
<td>(0.21) (0.03)</td>
<td>(0.11) (0.03)</td>
<td>(0.13) (0.05)</td>
</tr>
<tr>
<td>Education and research</td>
<td>(0.17) (0.01)</td>
<td>(0.07) (0.30)</td>
<td>(0.09) (0.18)</td>
</tr>
<tr>
<td>Health</td>
<td>(0.32) (0.02)</td>
<td>(0.06) (0.21)</td>
<td>(0.11) (0.08)</td>
</tr>
<tr>
<td>Social services</td>
<td>(0.53) (0.02)</td>
<td>(0.07) (0.08)</td>
<td>(0.18) (0.43)</td>
</tr>
<tr>
<td>Groups 5-9(^2)</td>
<td>(0.37) (0.004)</td>
<td>(0.18) (0.004)</td>
<td>(0.22) (0.05)</td>
</tr>
<tr>
<td>Religion</td>
<td>0</td>
<td>0</td>
<td>(0.28) (0.08)</td>
</tr>
<tr>
<td>Professional associations, trade unions etc</td>
<td>(0.03) (0.05)</td>
<td>(0.88) (0.002)</td>
<td>(0.10) (0.01)</td>
</tr>
<tr>
<td><strong>Sub-total1 (% &lt; £3.60)</strong></td>
<td>0.216</td>
<td>0.068</td>
<td>0.161</td>
</tr>
<tr>
<td>Retail</td>
<td>(0.36) (0.14)</td>
<td>(0.43) (0.001)</td>
<td>(0.47) (0.01)</td>
</tr>
<tr>
<td><strong>Sub-total2 (% &lt; £3.60)</strong></td>
<td>0.29</td>
<td>0.069</td>
<td>0.165</td>
</tr>
<tr>
<td>All other sic92</td>
<td>(0.17) (0.73)</td>
<td>(0.05) (0.38)</td>
<td>(0.19) (0.12)</td>
</tr>
<tr>
<td><strong>Total % paid &lt; £3.60</strong></td>
<td>0.20</td>
<td>0.063</td>
<td>0.167</td>
</tr>
</tbody>
</table>

\(^1\) The figure in the first bracket is the probability of being paid \( \leq £3.60 \) given the industry classification. The figure in the second bracket is the probability of being employed in the industry classification. The product of the two brackets gives the sector impact of these two probabilities.

\(^2\) Includes group 5 (environmental organisations), group 6 (development and housing), group 7 (advocacy and politics), group 8 (philanthropic intermediation) and group 9 (international activities).
Table 4: Probabilities of being paid ≤ £3.60 given and occupational classification (based on cell (head) counts of over 1000 in the voluntary sector) by sector of employment

<table>
<thead>
<tr>
<th>Private</th>
<th>Public</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>651 Playgroup leaders</td>
<td>(0.60) (0.007)</td>
<td>(0.27) (0.001)</td>
</tr>
<tr>
<td>659 Other childcare</td>
<td>(0.69) (0.004)</td>
<td>(0.20) (0.02)</td>
</tr>
<tr>
<td>430 Clerks not elsewhere specified</td>
<td>(0.18) (0.03)</td>
<td>(0.09) (0.02)</td>
</tr>
<tr>
<td>958 Cleaners, domestic</td>
<td>(0.56) (0.03)</td>
<td>(0.24) (0.04)</td>
</tr>
<tr>
<td>292 Clergy</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>644 Care assistants and attendants</td>
<td>(0.59) (0.01)</td>
<td>(0.10) (0.03)</td>
</tr>
<tr>
<td>720 Sales assistants</td>
<td>(0.50) (0.07)</td>
<td>(0.22) (0.001)</td>
</tr>
<tr>
<td>371 Welfare, community, youth workers</td>
<td>(0.21) (0.003)</td>
<td>(0.05) (0.01)</td>
</tr>
<tr>
<td>672 Caretakers</td>
<td>0</td>
<td>(0.13) (0.01)</td>
</tr>
<tr>
<td>179 Managers and proprietors in services</td>
<td>(0.09) (0.02)</td>
<td>0</td>
</tr>
<tr>
<td>953 Catering assistants</td>
<td>(0.49) (0.01)</td>
<td>(0.34) (0.01)</td>
</tr>
<tr>
<td>952 Kitchen porters</td>
<td>(0.61) (0.007)</td>
<td>(0.49) (0.01)</td>
</tr>
<tr>
<td>459 Other secretary</td>
<td>(0.10) (0.03)</td>
<td>(0.02) (0.02)</td>
</tr>
<tr>
<td>622 Bar staff</td>
<td>(0.58) (0.01)</td>
<td>(0.46) (0.001)</td>
</tr>
<tr>
<td>620 Chefs, cooks</td>
<td>(0.36) (0.01)</td>
<td>(0.18) (0.01)</td>
</tr>
<tr>
<td>293 Social workers and probation officers</td>
<td>(0.14) (0.001)</td>
<td>(0.03) (0.02)</td>
</tr>
<tr>
<td>190 Trade union officials</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>410 Accounts clerks</td>
<td>(0.09) (0.03)</td>
<td>(0.04) (0.01)</td>
</tr>
<tr>
<td>640 Assistant nurse</td>
<td>(0.42) (0.003)</td>
<td>(0.10) (0.02)</td>
</tr>
<tr>
<td>615 Security guards</td>
<td>(0.35) (0.006)</td>
<td>(0.07) (0.004)</td>
</tr>
<tr>
<td>Top 20 occupations – Total % paid &lt; £3.60</td>
<td>0.36</td>
<td>0.144</td>
</tr>
<tr>
<td>Top 19 occupations (excludes sales assistants) – Total % paid &lt; £3.60</td>
<td>0.308</td>
<td>0.144</td>
</tr>
<tr>
<td>Top 20 occupations as a total % of all employment</td>
<td>27.5</td>
<td>23.3</td>
</tr>
</tbody>
</table>

1 The figure in the first bracket is the probability of being paid ≤ £3.60 given the occupational classification. The figure in the second bracket is the probability of being employed in the occupation classification. The product of the two brackets gives the sector impact of these two probabilities.
Figure 1:
Probability tree showing low pay by gender and sector of employment

```
Private
  Male 0.56
    £3.60 or less 0.13
    Above £3.60 0.87
  Female 0.44
    £3.60 or less 0.30
    Above £3.60 0.70

Public
  Male 0.40
    £3.60 or less 0.04
    Above £3.60 0.96
  Female 0.60
    £3.60 or less 0.08
    Above £3.60 0.92

Third
  Male 0.32
    £3.60 or less 0.14
    Above £3.60 0.86
  Female 0.68
    £3.60 or less 0.18
    Above £3.60 0.82
```
Figure 2: Probability tree showing low pay by gender, full/part-time status and sector of employment
Figure 3: Probability tree showing low pay by age group and sector of employment
Figure 4: Probability tree showing low pay by education status and sector of employment