Low Pay Britain: Failure to act risks generating growth which once again disproportionately benefits a minority

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A new report by the Resolution Foundation shows that the number of people earning less than a living wage – the pay rate deemed sufficient to achieve a minimum standard of living – increased from 3.3 million in 2006 to 4.8 million in 2012. ***Matthew Whittaker*** *summarises the report, pointing out that the risk of economic insecurity is especially high for women and the young, and that there is support for the theory of growing polarisation in the labour market. There's a real risk that any recovery built on the backs of a large pool of low paid workers is likely to undermine itself very quickly.*

Tentative it may be, but the British economy finally appears to be entering recovery. Output is improving, the employment rate is climbing and, perhaps most importantly for the sustainability of the upturn, a range of surveys point to a return of business confidence. Welcome though this is, there are still big question marks over the extent to which a new phase of growth will feed through to the pay packets of typical workers.

The experience of recent years suggests that growth is a necessary but insufficient condition for improving living standards. Even during the apparent boom years of the 2000s, the wages of large sections of the workforce underwent a distinct slowdown. Adjusting for inflation, median annual pay among employees peaked at £24,600 in 2005, some three years before the financial crisis hit. Of course the downturn made things significantly worse, with median pay today standing at around £21,300, lower than at any point since 1997.

As a result of these trends, our latest audit of the distribution of earnings, *Low Pay Britain 2013*, shows that the number of people earning less than a living wage – the pay rate deemed sufficient to achieve a minimum standard of living – increased from 3.3 million (or 14% of all employees) in 2006 to 4.8 million (or 20% of employees) in 2012. For an increasing number of people, work is no longer a guarantee of economic security.

The risk is particularly high for women (25% of whom earn less than a living wage), the young (with 77% of workers aged 16-20 and 37% of those aged 21-25 falling below this threshold) and those working on a part-time (40%) and temporary (32%) basis. As many as two-in-three of those working in hotels and restaurants earn less than a living wage as do two-in-five retail employees. And the low skilled are disproportionately represented, with more than half of those in 'elementary' occupations and in sales and customer services being affected.

Yet the proportion of employees who are technically 'low paid' – earning less than two-thirds of median gross hourly pay – is largely unchanged in recent years. If anything, it has improved very slightly. Having grown rapidly over the course of the 1980s and early-1990s from a low of 13%, the low pay proportion peaked at 23% in 1996 and subsequently plateaued, standing at 'just' 21%in 2012. This apparently perverse outcome reflects the fact that the measure compares how workers are doing in *relative* terms, thereby failing to capture the impact of the generalised slowdown in wage growth experienced more recently.

But scratch beneath the surface and this relative low pay measure reveals significant – and potentially troubling – trends. So, while the overall prevalence of low pay has been flat, it has been growing among some groups: specifically the young, the low skilled and those working in already low paying service sectors. Along with wider changes in working patterns, these trends mean that the characteristics of the low paid have changed over time. For example, the share of the low paid population working on a part-time basis increased from 30% in 1975 to 58% in 2012, while the proportion accounted for by temporary workers grew from 8% in 2000 (the earliest period in which we have data) to 13% most recently.

And it is worth reflecting on another group not captured in this data: the self-employed. The number of such workers increased by around 1 million (or 26%) between 2002 and 2013, yet the typical incomes associated with self-employment fell just as sharply. There is more than a suggestion that this surge in self-employment reflects a shift towards low paid odd-jobbing rather than genuine entrepreneurial zeal.

It all lends support to the theory of growing polarisation in the labour market. The wage inequality of the 1980s in which the top moved away from the middle and the middle moved away from the bottom has been replaced by a starker division between a two-tier workforce. In the top tier we see high-skilled, secure and well-paid jobs; in the bottom we find lower- and middle-skilled, precarious and low paid roles. Moving between the two is likely to be increasingly difficult.

There's an upside. The increased flexibility associated with the growth of a bottom tier characterised by short hours and temporary working undoubtedly helped to stop unemployment from rising as high as many feared during the downturn. But there are clear dangers too and the big question for the recovery is what direction will we move in next?

While it is clearly too soon to draw any definitive conclusions, it is worrying that there is no evidence as yet of recent job growth bringing about any reversal in the recession-inspired acceleration in part-time, temporary and low paid working. Part way through 2013 the typical pay of 'new' employees – those entering or re-entering the workforce – remains some 50p an hour lower than the pre-financial crisis rate.

Meeting the challenge of low pay over the medium term will be far from easy. Other economies are grappling with the same problems and there are limits to the extent to which government can push back against trends associated with globalisation and technological change. Nevertheless, Britain remains at the wrong end of the international low pay league, with workers here being twice as likely as those in Italy and five times more likely than counterparts in Belgium to be low paid. While global forces are playing their part, we must acknowledge that these patterns are shaped to some extent by the choices of policymakers.

This difference in international outcomes should also be cause for encouragement: the problem is not insurmountable. Over the longer term there is likely to be more we can do via education and skills policies but, more immediately, there is a strong case for looking again at how government can build or better utilise labour market institutions such as the National Minimum Wage and the Low Pay Commission.

Failure to act risks generating growth which once again disproportionately benefits a minority. That approach proved unsustainable in the 2000s: against a changed backdrop of tighter fiscal constraints, restricted access to credit and an unresolved household debt hangover, there's a real risk that that any recovery built on the backs of a large pool of low paid workers is likely to undermine itself very quickly indeed.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

About the Author

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