

Resolution Foundation

Low pay Britain

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Summary

On 1 October 2011, the National Minimum Wage will rise from £5.93 to £6.08, giving a helping hand to families in the face of rising living costs. But there are still 5 million workers – 20% of all employees - earning less than the Living Wage which is designed to provide a ‘minimum acceptable quality of life’. This is of serious concern given the significance of wages to household incomes and living standards.

Low wage workers are more likely to be female, part-time and in the private sector. They are also more likely to be younger, though this is in part due to the traditional trajectory of earnings over the life course.

Low wage workers are more likely to be found outside of London and the South East although in absolute terms, the South East, the North West and London all have more than half a million people earning less than the Living wage.

The retail and transport sectors have the greatest concentration of employees earning less than the Living Wage while finance and public administration are among the lowest. Unsurprisingly, those without any formal qualifications are more likely than other employees to earn less than the Living Wage, while those with degrees are least likely.

What is perhaps most striking is the prevalence of low paid employment across the economy. Six out of sixteen sectors have over 30% of employees earning below the Living Wage. Just fewer than 10 percent of people who hold degrees earn less than the Living Wage. 1 in 7 of those aged 36-45 (at the point of their ‘peak earnings’ potential) are on low pay, as are some of those working in the skilled trades and professional occupations. This shows that the issue of low paid employment is not confined to a narrow stratum of society; it affects workers of all types across the economy.

This paper will inform Resolution Foundation’s joint project with IPPR on the [Living Wage](#).

Introduction

Earnings from employment make up the bulk of household income, upwards of 80 percent of total gross income for those in low to middle income households¹. Historically, periods of economic growth have led to growing wages for ordinary workers, ensuring rising living standards for all households. But this connection between growth and gain for workers has started to fray in recent years. With median wages stagnating since 2003 and the share of national income going to workers in the lower half of the earnings distribution declining, the number of workers on low pay is of greater concern than ever before.²

In this context, the National Minimum Wage has played a critical role in ensuring a basic level of reward for all workers since its introduction in 1999. On 1 October 2011, the National Minimum Wage will rise from £5.93 to £6.08, giving a helping hand to families in the face of rising living costs. But while the National Minimum Wage protects workers from falling too far into poverty, it does not guarantee a decent standard of living. The Living Wage however is set at a level that is designed to deliver a 'minimum acceptable quality of life'; to meet life's necessities as identified through public consultation and allow families to weather unexpected income shocks.³ The Living Wage is currently set at £8.30 in London and £7.20 in the rest of the country.⁴

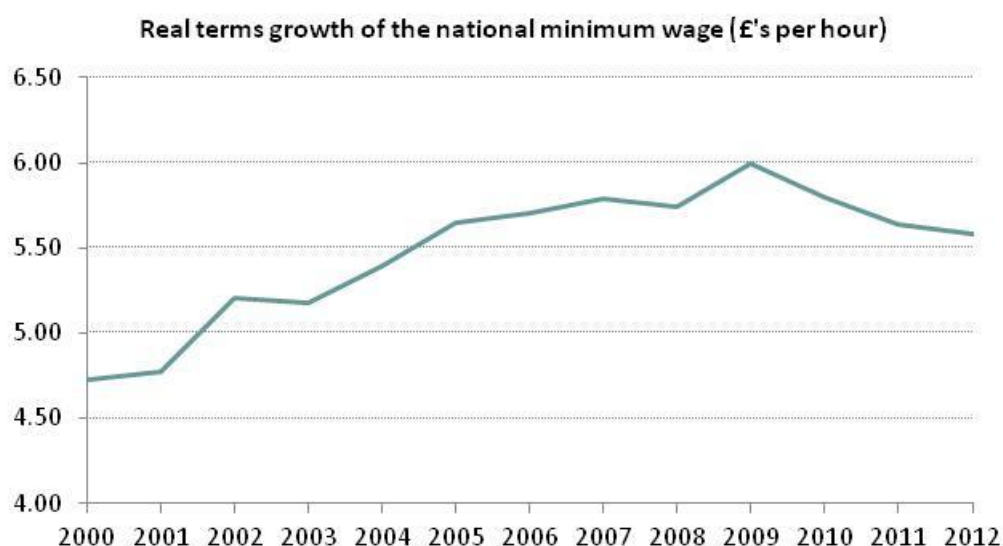


Figure 1: RPI-adjusted national minimum wage levels 2010 prices, £'s per hour

Note: All values adjusted for RPI inflation, 2010 prices. Figure for 2012 represents the October 2011 NMW level of £6.08.

Source: Low Pay Commission

This briefing identifies workers in Britain today who earn the Minimum Wage and less than the Living Wage. As such, it presents a map of low wage work in Britain. It describes the incidence of low wage work by gender, full or part-time employment, region, occupation, industrial sector and level of education. In

¹ The Resolution Foundation defines those on low to middle incomes as households in deciles two to five of the income distribution, excluding those who get more than 20 percent of their income from means tested benefits. For a couple with no children, this is equivalent to an annual income of £12,000 to £30,000.

² Plunkett, J. (2011) *Growth Without Gain: The faltering living standard of people on low-to-middle incomes*, Resolution Foundation

³ The London living wage is set by the Greater London Authority <http://www.london.gov.uk/sites/default/files/living-wage-2011.pdf>. Loughborough University's Centre for Research in Social Policy calculates the living wage for outside London <http://www.citizensuk.org/wp-content/uploads/2011/06/The-Living-Wage-in-the-United-Kingdom-May-2011.pdf>

⁴ We have used the Living Wage definition set by Loughborough University's Centre for Research in Social Policy. Other definitions of the Living Wage exist but this is the most commonly used.

doing so, we show that although some groups are more likely to find themselves in low paying jobs, low wage work can affect individuals right across the industrial, occupational and educational spectrum.

The data in this briefing is taken from the Annual Survey of Hours and Earnings 2010 micro data except for the detailed breakdown by education which is taken from the Labour Force Survey 2010. In both surveys, individuals were designated as earning less than the Living Wage if they worked in London and earned less than £7.85 per hour or if they worked in any other region and earned less than £7.20 per hour.⁵ These Living Wage levels are for 2010 as is the data used in the analysis. Where possible, we compare the total percentage of workers earning below Living Wage to the percentage of workers earning National Minimum Wage (NMW). The data on those NMW is taken from the 2011 Low Pay Commission report.⁶ The data presented in this briefing refer to all employees.

⁵ Hirsch, D. and Moore, R. (2011), *The Living Wage in the United Kingdom Building on success*

⁶ LPC, *National Minimum Wage: Low Pay Commission Report 2011*, London: TSO

Characteristics of low paid workers

Overall, 21 percent of employees (5 million in total)⁷ earned less than a Living Wage in the UK in 2010 while according to the Low Pay Commission, around 3.8 percent of workers (891,000) earned NMW or less (Figure 2) – around 684,000 of these jobs were paid at the NMW while 207,000 were paid below the NMW.⁸ It should be noted that a job that pays below NMW does not necessarily imply non-compliance with the NMW legislation; this figure includes people paid piece rates, apprentices, and those who have their accommodation paid for by their employers.

Figure 2 shows that 27 percent of women earned less than Living Wage compared to 16 percent of men. A greater proportion of women than men also earned NMW. Close to half (42 percent) of part-time employees earned below Living Wage in 2010 compared to just 13 percent of full-time workers. Full-time employees were also less likely to be employed in an NMW job. There is, of course, some overlap between the findings on gender and full/part-time employment as women are much more likely to undertake part-time work than men.

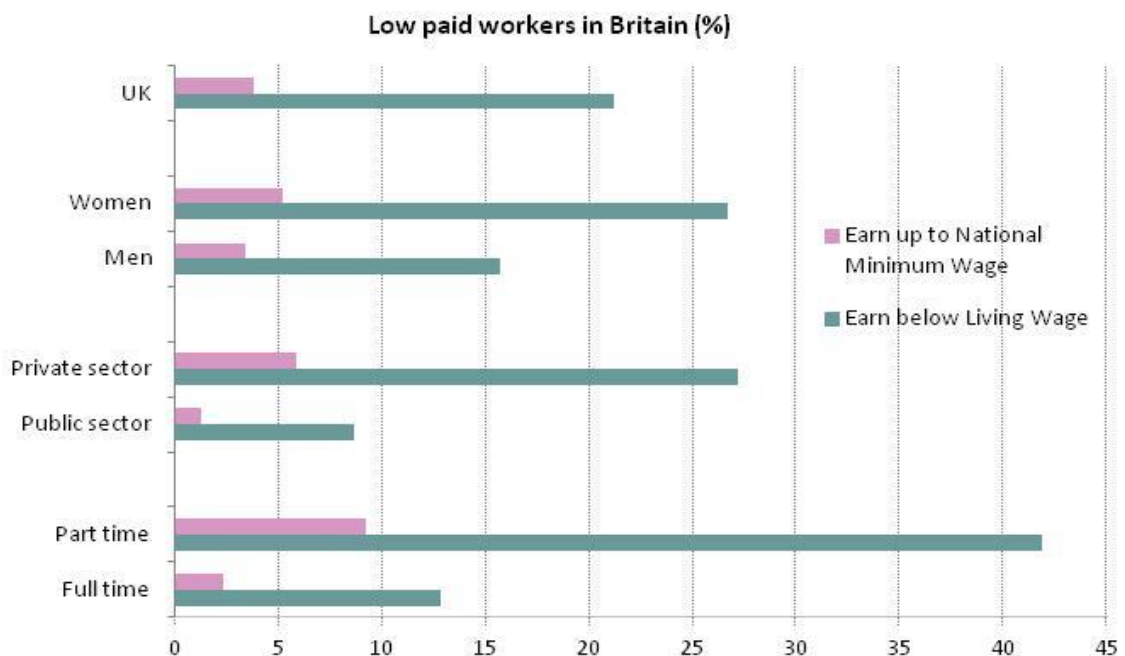


Figure 2: Characteristics of those earning less than Living Wage and NMW

Source: Resolution Foundation estimates of ASHE 2010. NMW data from LPC, *National Minimum Wage: Low Pay Commission Report 2011*, London: TSO. Note: Below Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. Figures in the chart refer to the proportion of employees earning less than this amount.

The public sector appears to perform better than the private sector with fewer employees earning less than Living Wage and NMW. However, this may be a function of the higher skill profile of the public sector

⁷ There were around 25 million people classified as employees in ASHE dataset in 2010. The total number employed in the UK is around 29 million. The difference between these two figures is accounted for by individuals who are self-employed (approx. 4 million) and those who were not employed during the ASHE survey period. Both groups are not covered in the ASHE data.

⁸ LPC, *National Minimum Wage: Low Pay Commission Report 2011*, London: TSO

The TUC recently reported that 890,000 workers would benefit from the expected rise in the NMW (<http://www.tuc.org.uk/economy/tuc-20088-f0.cfm> [accessed 29 September 2011]). These figures refer to the number of workers paid at or below the NMW and are identical to those used in this briefing.

which has changed dramatically since the 1980s and 1990s when many of the lower-skilled, lower-paying jobs in the public sector such as care assistants and cleaners were outsourced.

Figure 3 shows the incidence of low pay among employees of different ages. Previous research has highlighted how wages peak for the majority of the population in the late 30s or early 40s and this is reinforced here.⁹ The proportion of low wage workers falls dramatically with age. 71 percent of those aged 16-21 earn below Living Wage compared to just 14 percent of 36-45 year-olds. Those aged 16-21 will be at the start of their careers and most can expect their earnings to rise over time. However, it is concerning that at least 1 in 7 of workers who are theoretically at the age of their peak earnings potential still earn less than the Living Wage.

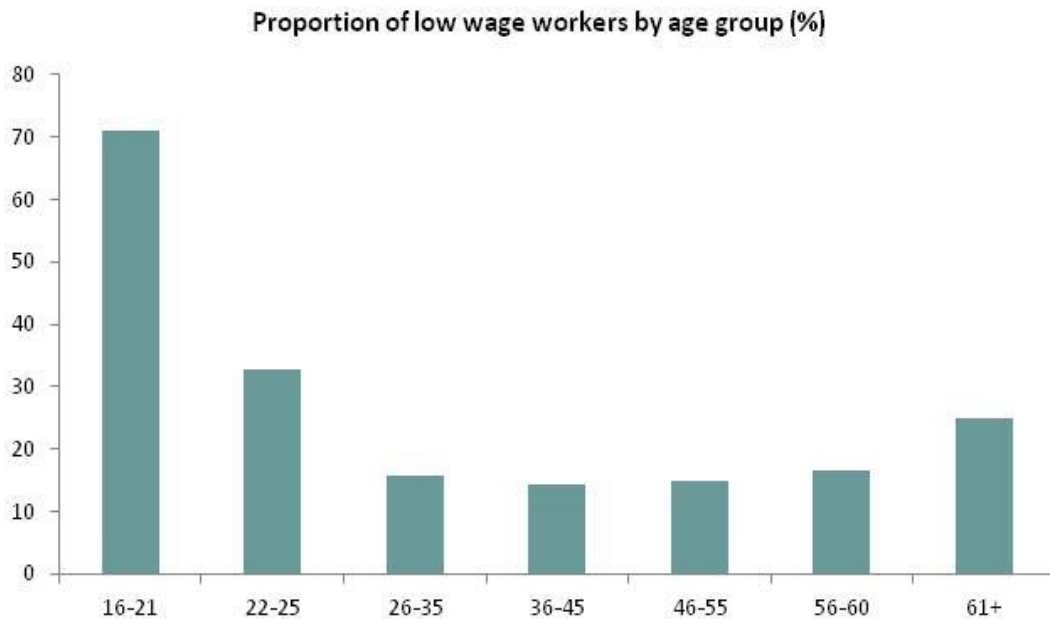


Figure 3: Below Living Wage workers in the UK by age group

Source: Resolution Foundation estimates of ASHE 2010.

Note: Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. Figures in the chart refer to the proportion of employees earning less than this amount.

Region

London and the South East are the regions with the lowest proportions of low paid workers with 15 and 19 percent, respectively, earning less than the Living Wage (Figure 4). Around a quarter of all employees in the West Midlands, North West, Yorkshire, the North East, East Midlands and Wales earn less than Living Wage. London and the South East also have the lowest proportion of NMW employees while the West Midlands, North East and East Midlands have the highest (6 percent).

Although in relative terms London has the lowest proportion of workers earning less than Living Wage, in absolute terms it has the third highest number (540,000) after the North West (650,000) and the South East (640,000). The large number of people earning below Living Wage in the North West can be further put into context when we consider that the labour market in the North West has 700,000 fewer jobs in total than in the South East and almost 1 million fewer jobs than in London.

⁹ Savage, L (2011) *Moving on up? Social mobility in the 1990s and 2000s*, Resolution Foundation; Goldthorpe, J. and McKnight, A, (2004), *The economic basis of social class, CASEpaper 80*, Centre for Analysis of Social Exclusion



Figure 4: Below Living Wage and NMW workers in the UK by region

Source: Resolution Foundation estimates of ASHE 2010. NMW data from LPC, *National Minimum Wage: Low Pay Commission Report 2011*, London: TSO.

Note: Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. Figures in the chart refer to the proportion of employees earning less than this amount. Figures are based on employees' region of work rather than region of domicile.

Occupation

The occupations with the largest concentration of low paid workers are sales (60 percent), elementary occupations such as labourers and waiting staff¹⁰ (57 percent) and personal services such as hairdressers and child minders (33 percent). Although we do not have the data to show the proportion in each occupation that earn NMW, we do know the proportion of employees who earn less than 80 percent of the Living Wage which roughly equates to the NMW level that existed throughout 2010.¹¹ The same three occupations have the largest concentration of workers earning less than 80 percent of Living Wage.

These three occupations also have some of the highest levels of part-time employment, together accounting for around half of all part-time employment.¹²

Unsurprisingly, the occupations with the smallest numbers of people on low pay are managers, professionals such as teachers and lawyers and associate professionals (engineering technicians, nurses, journalists). However, it is notable that there are low wage employees across all occupations and the issue of low pay is not confined to a few 'problem' occupations.

¹⁰ This includes workers such as labourers, postal workers, waiters, hospital porters, window cleaners, security guards, and road sweepers.

¹¹ Before the uprating in October 2010, the NMW was £5.80 per hour which is slightly higher than the level of 80 percent of Living Wage outside of London which stands at £5.76. However, this data also covers a reference period during which the NMW was £5.73 per hour for part of the year. For this reason, the estimates based on the 80 percent of Living Wage figure (£5.76) are reasonably representative of those earning up to NMW.

¹² IPPR, *Trends in part-time and temporary work*, IPPR Technical Briefing,

<http://www.ippr.org/uploadedFiles/pressreleases/Part-time%20and%20temporary%20work%20technical%20briefing.pdf> [Accessed 29 September 2011]

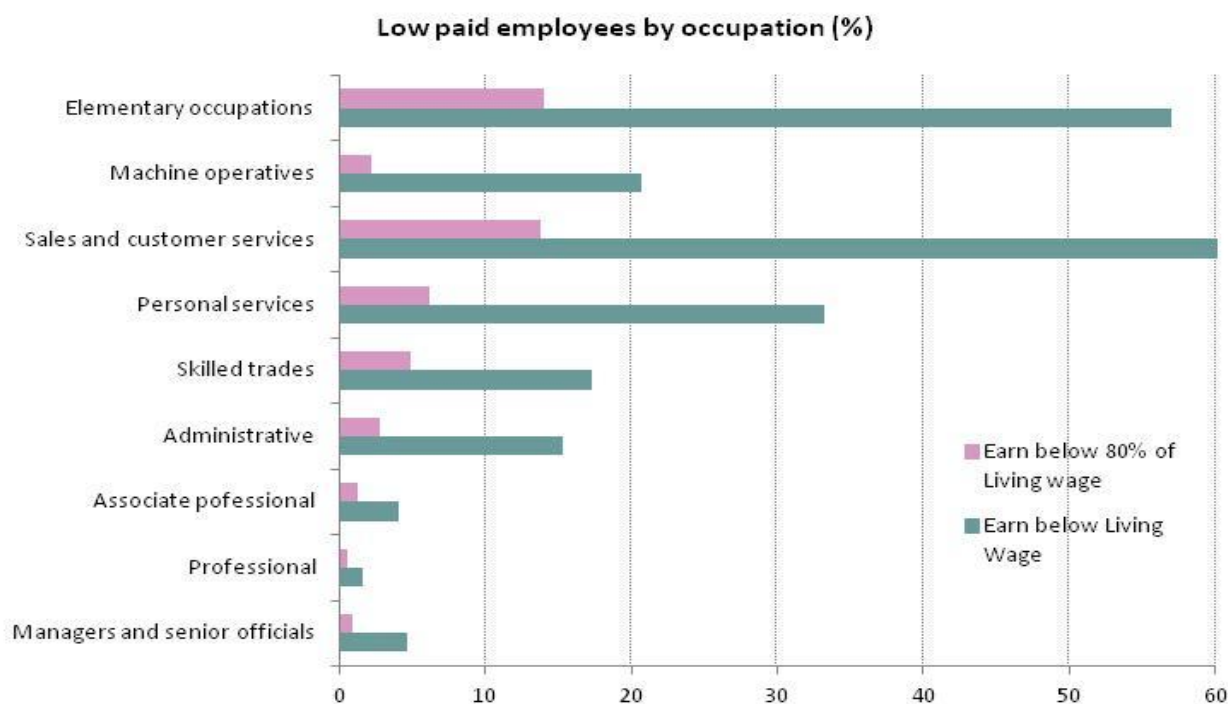


Figure 5: Occupational breakdown of below Living Wage and below 80% of Living Wage employees in the UK

Source: Resolution Foundation estimates of ASHE 2010.

Notes: Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. Figures in the chart refer to the proportion of employees earning less than this amount. 80% of Living wage is defined as those earning less than £6.28 in London and those earning less than 5.76 outside of London.

Occupations classified on the basis of the major group of the Standard Occupational Classification 2000.

Industrial sector

As with occupation, there are employees earning less than Living Wage and less than 80 percent of Living Wage in every industrial sector. However, there is a clear demarcation in the data with six sectors in which more than 30 percent of all employees earn less than Living Wage: other services, agriculture, arts, administration, transport and communications, and retail. These are also the sectors in which the proportion earning less than 80 percent of Living Wage is greater than 6 percent. Transport and retail also have the largest number of low wage workers in absolute terms with 860,000 and 1.6 million respectively. The large number of employees earning less than Living Wage in the retail sector is compounded by the fact that it is also one of the largest sectors in the UK economy, providing over 16 percent of all jobs.¹³

In absolute terms, there are also a lot of employees in the health (550,000) and education (600,000) sectors who earn less than Living Wage, although the low wage workers make up less than 15 percent of the workforce in those sectors.

The sectors with the lowest proportion of low wage workers are the energy (electricity and gas), public administration and finance sectors. The finance sector is interesting as other analysis by the Resolution Foundation has shown that it is the most unequal sector in the UK economy in terms of the distribution of wages.¹⁴ It does however seem that earnings at the bottom of the finance sector are still absolutely better than in most other sectors even though in relative terms, the gap between the top and the bottom is wider than in any other sector.

¹³ Whittaker, M. and Savage, L. (2011) [Missing Out: Why ordinary workers are experiencing growth without gain](#), Resolution Foundation

¹⁴ Whittaker, M. and Savage, L. (2011) [Missing Out: Why ordinary workers are experiencing growth without gain](#), Resolution Foundation

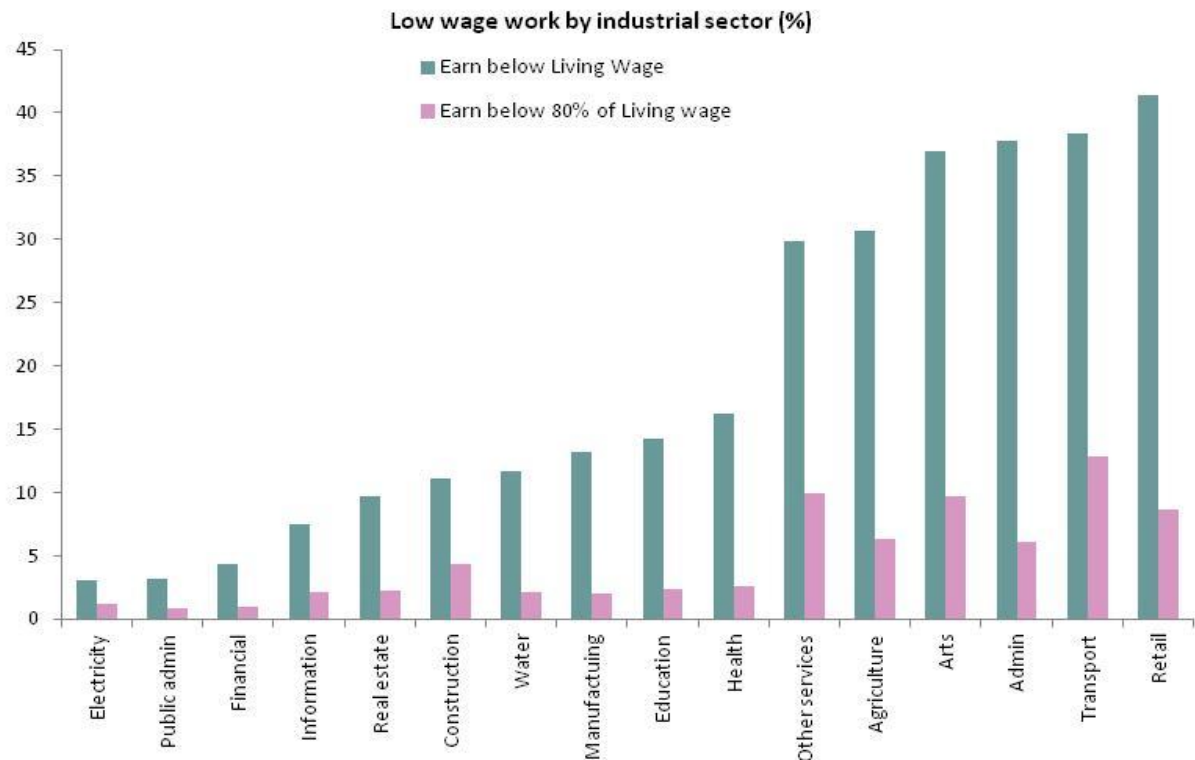


Figure 6: Sectoral breakdown of below Living Wage and below 80% of Living Wage employees in the UK

Source: Resolution Foundation estimates of ASHE 2010.

Notes: Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. 80% of Living wage is defined as those earning less than £6.28 in London and those earning less than 5.76 outside of London. Figures in the chart refer to the proportion of employees earning less than this amount.

Industries classified on the basis of the major group of the Standard Industrial Classification 2007.

Education

The Annual Survey of Hours and Earnings (ASHE) does not contain information on employees' level of education. Therefore, the Labour Force Survey (LFS) is used in this section to estimate the incidence of low pay by qualification as this is the best available data. The LFS tends to offer higher estimates of the number of people who earn Living Wage than ASHE and that should be borne in mind in this section.¹⁵

Previous research would lead us to expect that those with higher qualifications receive higher wages and therefore it is no surprise that the incidence of those earning both less than Living Wage and less than 80 percent of Living Wage is greater for those with the lowest skill levels. 54 percent of people with no qualifications earn less than the Living Wage and 22 percent earn less than 80 percent of the Living Wage. This is comparable to the proportion of people with no qualifications that earn the NMW or less (19 percent).¹⁶

Those with degrees are the least likely to find themselves in low paid employment. The pay penalty for lower skilled workers is compounded by evidence which shows that, all other things being equal, they are significantly less likely than their higher skilled peers to earn their way up the earnings distribution as they

¹⁵ According to ASHE, 21 percent of all workers in the UK earn less than Living Wage while estimates based on LFS data put the figure at 27 percent.

The variable HOURPAY is used to determine hourly wage levels from the LFS. This is a derived variable and it has been shown that there is some degree of measurement error as a result. However, it is deemed to be the most appropriate measure for current purposes. The analysis was also carried out using the HRRATE variable is only asked to those on hourly rates, who tend to be low paid workers. This runs the risk of underestimating the proportion of low wage workers in the data and is therefore not reported here.

¹⁶ LPC, *National Minimum Wage: Low Pay Commission Report 2011*, London: TSO

head towards their period of peak earnings. They are more likely to get stuck in the lower half of the distribution or be overtaken by those with higher qualifications¹⁷ This suggests that low skilled workers are in danger of becoming trapped in a low pay equilibrium.

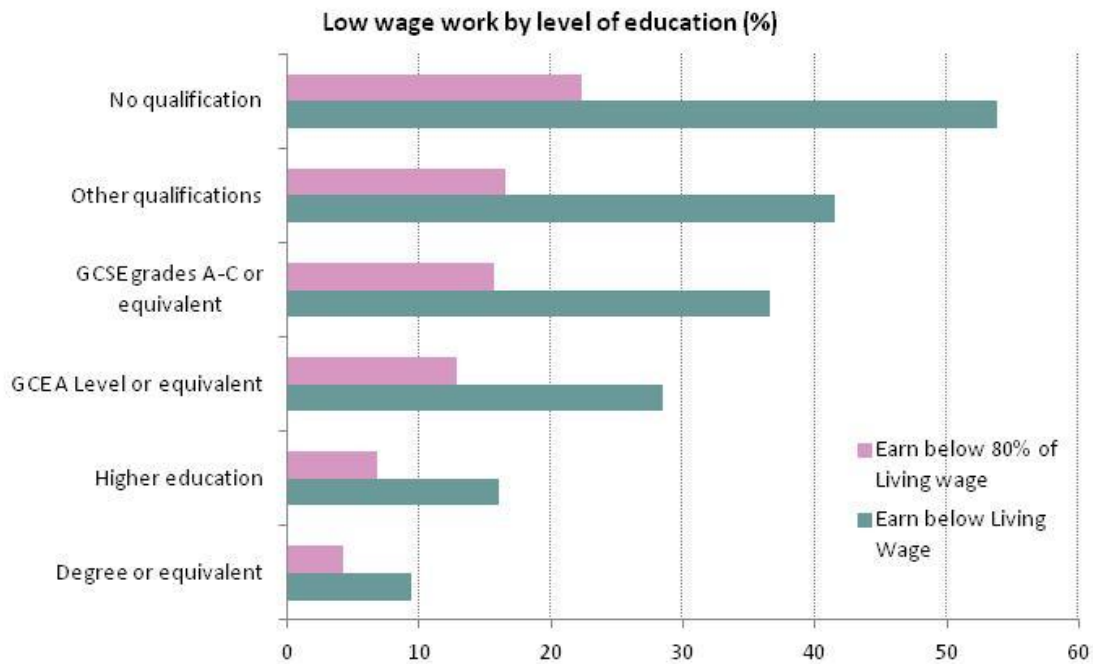


Figure 7: Below Living Wage and below 80% of Living Wage employees in the UK by level of education

Source: Resolution Foundation estimates of LFS 2010, not seasonally adjusted. Pooled data from four January-March, April-June, July-September, October-December 2010.

Notes: Living wage is defined as those earning less than £7.85 per hour in London and those earning less than £7.20 per hour outside of London. 80% of Living wage is defined as those earning less than £6.28 in London and those earning less than 5.76 outside of London. Figures in the chart refer to the proportion of employees earning less than this amount.

Minimum wage trends and prospects for the future

The data above has set out the incidence of low pay in the UK by several key characteristics. But what are the prospects for the future for those on low pay?

Since its introduction in 1999, the NMW has helped to bring the wages of the lowest paid closer to those higher up the earnings distribution. In 1999 median earnings were 2.2 times greater than the NMW; by 2007 the median was 1.92 times greater than NMW. This is the narrowest the gap between the two has ever been. Since then, the NMW has started to fall relatively behind NMW once again.

In order to bring the gap between NMW and median earnings back to 2007 levels by 2015 there will need to be steep increases in the NMW. Figure 8 shows NMW levels from 2007 up to 2012. It also shows that by 2015, the NMW will have to be £6.89 per hour if it is to return to the same position it held relative to median earnings in 2007.

¹⁷ Savage, L. (2011), [Snakes and Ladders: who climbs the rungs of the earnings ladder](#), Resolution Foundation

Increase required for minimum wage to recover lost ground on median earnings by 2015

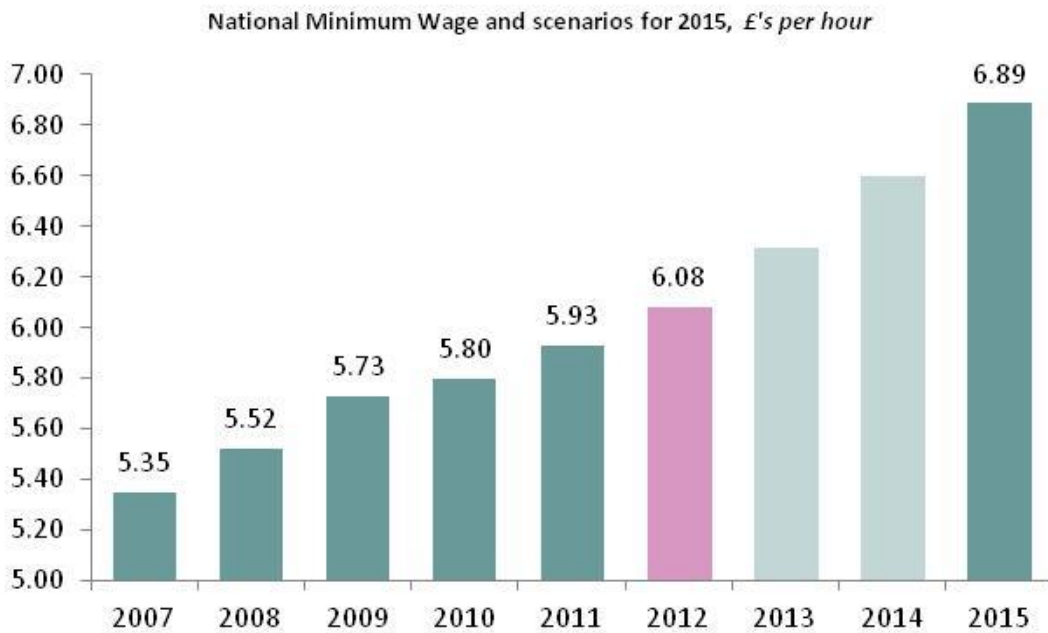


Figure 8: National Minimum Wage levels up to 2012 and notional rises up to 2015

Source: NMW levels 2007 to 2012: Low Pay Commission Report 2011

Note: Figure for 2015 is calculated as 1.91 times the level of projected median wage for 2015. This was the ratio of median earnings to NMW when it was at its lowest in 2007. Median wage for 2015 is calculated from projections for Average Weekly Earnings Growth from the Office for Budget Responsibility's *Economic and Fiscal Outlook* March 2011 supplementary economy table http://budgetresponsibility.independent.gov.uk/pubs/obr_economy_supplementary_tables+new+200411.xls

The Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low-to-modest incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low-to-middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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