RF

Resolution Foundation
REPORT

Low Pay Britain 2017

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Acknowledgements

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Executive Summary

This is the seventh annual Resolution Foundation report on low pay. The previous six editions all reached the same disappointing conclusion: too many jobs in the UK are low paid, with few signs of improvement over the past two decades. This report however covers a period of significant change, with the introduction in April 2016 of the National Living Wage (NLW) – the higher minimum wage for those aged 25 and over.

Wage squeeze returns as faster price rises combine with weak pay growth

Before diving into analysis of low pay and of the lived experiences of the low paid, it is helpful to set the scene by exploring broader labour market trends over the past decade. When it comes to jobs, the UK's performance since the beginning of the financial crisis has consistently surprised economists. After a relatively small drop in the number of people in work, since 2011 employment has grown steadily. In 2017 to date, employment rates records have continued to tumble.

But while resilience of employment has been a pleasant surprise, the continued weakness of pay growth is far less welcome. When the pay squeeze which followed the financial crisis ended in 2014, nominal wage growth remained underwhelming. Decent real-terms gains in 2015 were due primarily to historically low inflation. Anaemic pay growth coupled with the spike in inflation after the EU referendum has resulted in average wages rising more slowly than prices once again. Inflation is expected to abate in 2018 meaning this new pay squeeze should be comparatively brief. But there is little evidence to date of this historically terrible period for pay giving way to strong, broad-based wage growth.

The introduction of the NLW means the number low paid has fallen

Things for the lowest earners on the other hand have been much brighter. The NLW's introduction took the pay floor for those aged 25 and over from £6.70 to £7.20, a nominal increase of 7.5 per cent, far in advance of average wage growth. This has led to the largest fall in low pay in four decades. As of April

2016, 5.1m employees (19.3 per cent) are low paid, down from 5.4m (20.7 per cent) last year. This drop is the largest single-year percentage fall since 1977.

Unsurprisingly, the kinds of employees most at risk of being low paid have accounted for much of this decrease. Women still comprise the majority of the low paid – just over three-fifths – but the proportion of women that are low paid decreased from 25.2 per cent in 2015 to 23.4 per cent in 2016, a fall of 185,000. Employees in wholesale and retail and hospitality – the two largest low-paying sectors – have also disproportionately benefited from the policy.

But while the share of employees that are low paid under our core definition – those earning less than two-thirds of the hourly median wage – fell in 2016, on other measures of low pay the picture deteriorated. The number of employees paid less than the voluntary Living Wage – based on how much families need to reach an acceptable standard of living – rose from 6m to 6.2m, or 23 per cent of all employees.

Further falls forecast but the NLW will not eliminate low pay

The progress made so far is just the beginning. The government's planned trajectory for the NLW means it will continue to rise more quickly than typical wages up until 2020. As a result, our projections indicate that the share of people in low pay will reach 16.2 per cent in 2020, close to the lows of the late 1970s and early 1980s. While representing huge progress, this nonetheless means an estimated 4.3m employees will still be low paid when the NLW is fully rolled out. And while the rising minimum wage will provide a welcome boost to millions of low earners – 3.7m employees are projected to be paid at the wage floor come 2020 – it will bring challenges too.

Progression is already reported as an issue in many low-paying industries, especially when only meagre pay rises are available for those taking on more responsibility. With one in four employees in wholesale and retail, and nearly two in five in hospitality, expected to be paid at the wage floor in 2020, managing pay differentials and developing career paths in low-paying sectors looks set to become all the more crucial. The effects of a rapidly rising NLW will not only be felt within industries. Already in some areas, more than one in five workers earn at the wage floor, with this only set to rise. A one-size-fits-all approach will not be sufficient to help employers and workers in these most-affected areas adapt to this new era.

Low-paid people have not noticed pay rises from NLW

While low earners have certainly fared better than their higher-paid colleagues over the past year, how big of a difference has it made to the living standards of people in low-paid jobs? To better understand this, we held focus groups with people paid at or close to the NLW in August 2017. This move away from the headline statistics suggests that disillusionment among the low paid continues and, importantly when considering the NLW's potential, stretches beyond their hourly pay.

When asked how their pay had changed, few low earners had noticed a sizeable uplift in the past two years. This was true across those working full-time and part-time and those receiving in-work benefits as well as those who didn't. When asked what had changed of late, the respondents often cited an increased workload and employers having higher expectations of the skills employees will bring to a job, with less emphasis on training within the role. These were not discussed as being linked to the rising wage floor however.

Low wages frequently cited as issue but non-wage considerations matter greatly too

Though the pay rise brought by the NLW may not have been widely noticed, low pay was commonly raised as a serious difficulty in their lives. Low hourly pay meant some felt forced to work very long shifts in order to make ends meet. There was broad support for raising the minimum wage, though concern remained about it being increased too far and putting firms out of business.

But pay was far from the only element of work that was discussed as in need of improvement, pointing towards the need for a more comprehensive response to low pay. Although none of our respondents were on a zero-hours contract themselves, many had friends or family members who had experienced them and views were almost universally negative. The fear of zero-hours and short-hour contracts that offer little income security was particularly prevalent in the group carried out in the North of England, where most respondents felt the local labour market had improved little since the recession ended.

While most respondents had positive things to say about their jobs – the social aspect, be it with colleagues or customers, was enjoyable for many – a range of problems were mentioned. Long shifts that were badly planned or only announced at the last minute; a lack of appreciation or recognition from managers; and being expected to be entirely flexible with little concern for your own work-life balance were repeatedly raised as negatives. For some, a dearth of chances to move into better-paying roles, either within their current employer or elsewhere, was a disappointment. Opportunities for those with childcare responsibilities to progress were viewed as particularly poor.

Many of the things respondents wanted from their work would be common up and down the earnings ladder: satisfaction, the chance to develop, good relationships with colleagues and to feel valued. Some of the elements raised however, like wanting paid breaks, regular shift patterns and some variation rather than performing the same task over and over, were more specific to low-paying work. Even if the NLW makes significant inroads into the defining element of these kinds of jobs – low hourly wages – there remains much room for improvement.

Next chapter in reducing low pay and improving low paid jobs must be a comprehensive response from business and government

Together, our quantitative and qualitative analysis highlights much to welcome. The NLW is boosting pay and although this has yet to be felt by many, by 2020 it should have made a meaningful difference to the living standards of millions of people. But the other problems raised by our respondents, the difficulty facing some employers in maintaining differentials and the prevalence of low pay in parts of the country make clear that the NLW alone cannot solve the UK's low pay problem. The respondents in our groups were not particularly optimistic about employers committing to improving their work. But many gave examples of firms offering chances to progress alongside genuine two-way flexibility.

Politicians were generally viewed as out of touch with little sense of what the reality of low-paid work was like. With government due to publish its industrial strategy soon, including a major focus on low-paying but high-employing sectors like retail and hospitality would be an encouraging next step. Incentives for management training would help the low-paid as well as – potentially – productivity. This should be part of a concerted effort to move away from a low-pay, low-skill business model. Offering people routes out of zero-hours contracts or highly variable shift patterns after a duration is needed and legislation could be considered as government prepares its response to the Taylor Review.

Action cannot come solely from government however. With existing skills gaps unlikely to ease in the context of a tight labour market and in the wake of potentially lower EU migration following Brexit, offering more training opportunities makes sense for employers too. Providing more routes to progress – for example by not restricting jobs solely to graduates – would be a straightforward way of doing this.

The NLW will put a serious dent in low pay but much more will be needed to improve the prospects and day-to-day work of those in low-paying jobs. With uncertainty on how it will affect different parts of the economy, not to mention the potential shift that Brexit could have for the lower end of the labour market, the sooner these concerns are acted upon the better.

Section 1

Low pay in context

Low pay does not exist in a vacuum. The overarching health of the UK labour market directly influences the share of people in low pay. In this introductory Section, we explore trends in three of the most crucial factors when considering low pay: employment, wage growth and the minimum wage. The story centres around two striking and, unusually, coinciding developments. Three-quarters of working-age people are now employed with a historically low proportion unemployed. Simultaneously, pay growth remains anaemic. This, combined with the post-EU referendum inflation spike, has resulted in falling real wages. But for lower earners, 2016 marked the introduction of the National Living Wage and the beginning of a series of hourly wage rises well above inflation. Despite this steep incline, our analysis finds little evidence of a significant negative effect on the job prospects of the UK's lowest earners.

Wider factors, particularly employment rates and pay growth, tell us about the strength of the labour market that low-paid people operate in, how they are faring relative to those higher up the earnings ladder and provide an indication of what may lie ahead. In this Section, we focus on three key issues: employment, real wages and the National Living Wage (NLW).

Employment continues to exceed expectations

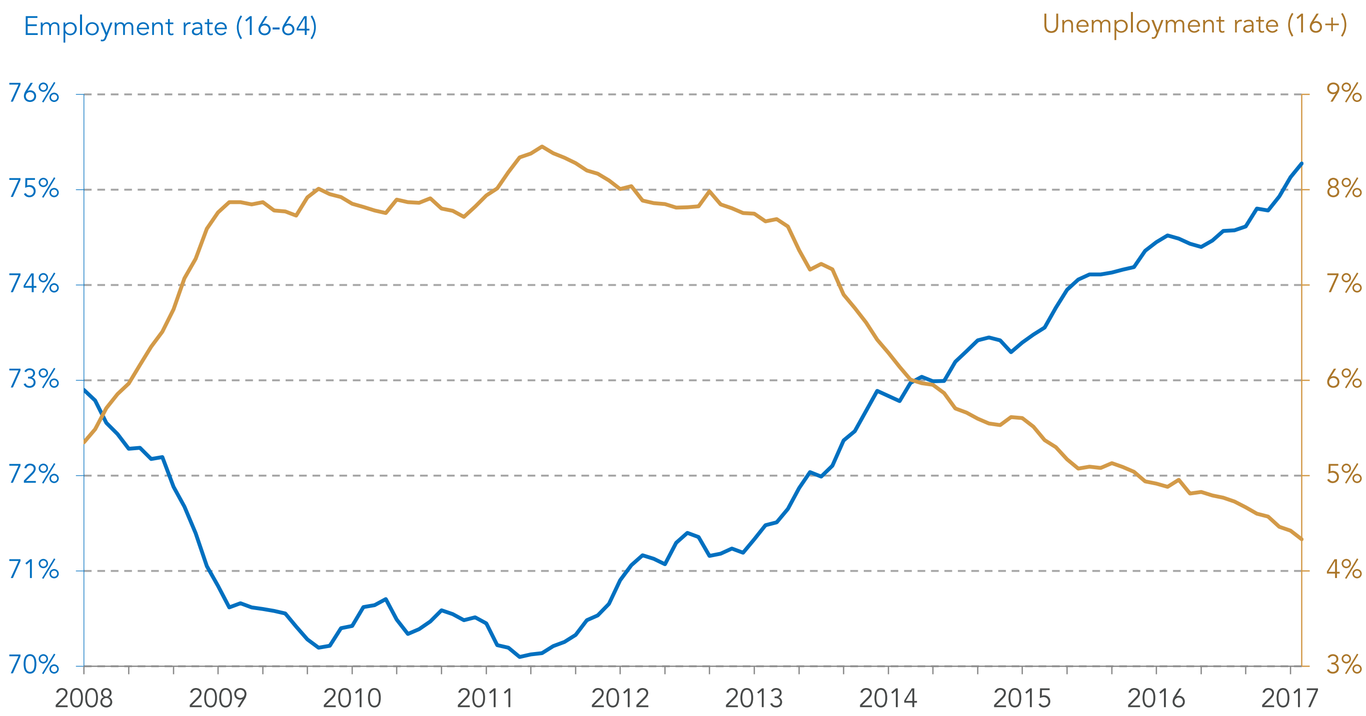
Perhaps the most no – and welcome – trend in the UK labour market since 2011 has been the performance of employment. So impressive has been the performance of the UK's headline employment measures that we have become somewhat used to new records being setting each month But it is worth pausing and remembering just how unexpected the post-crisis turnaround has been. In June 2010, the OBR projected that by 2014 there would be 29.9m people in work, well below the average 30.8m actually in work in that year.[1]

As Figure 1 shows, since its nadir in 2011 when the employment rate bottomed out at 70.1 per cent and unemployment stood at 8.5 per cent, the number of people in work has risen impressively. In mid-2017, a record 75.3 per cent of people aged 16-64 were in work. The share of people that are unemployed is smaller than at any point in the past four decades – reaching 4.3 per cent in May-Jul 2017 – while economic inactivity has plumbed new depths, dropping to 21.2 per cent.

[1] OBR, *Pre-Budget Forecast June 2010*

Figure 1: Low unemployment Britain

Employment and unemployment rates (%): Apr-Jun 2008 - May-Jul 2017, UK

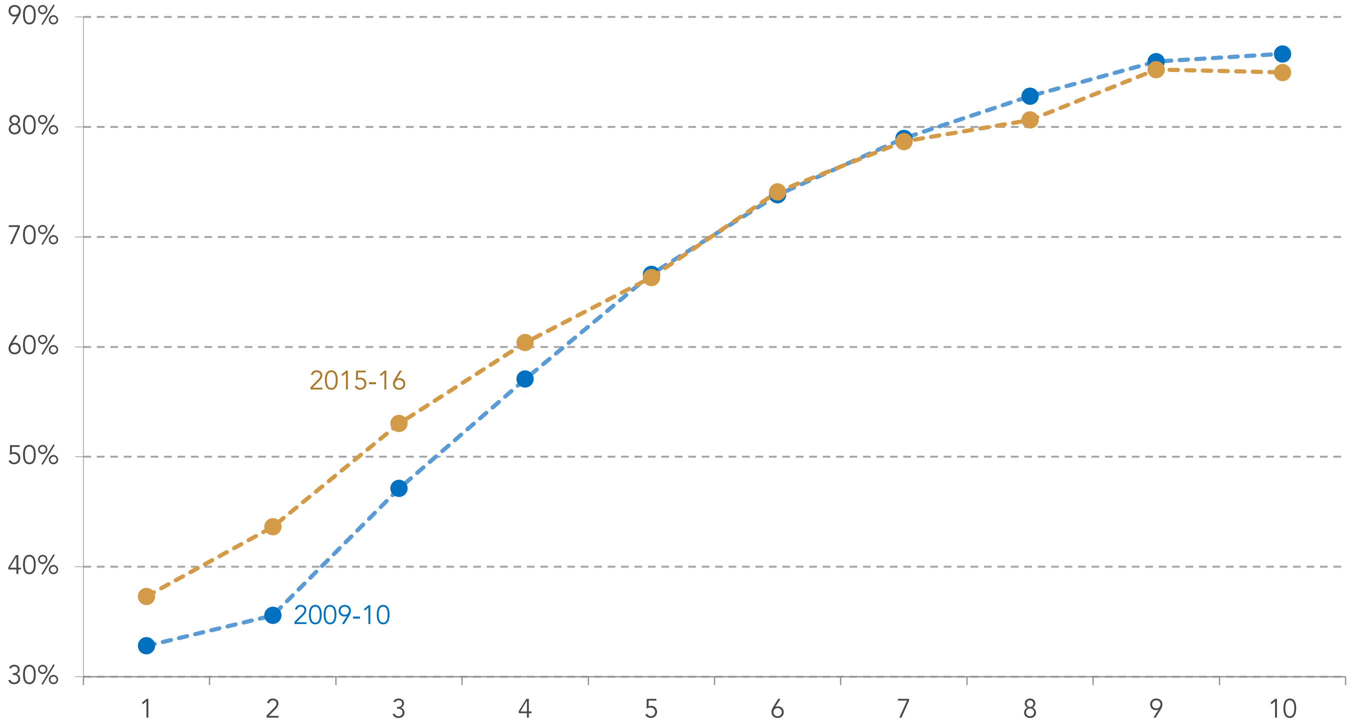


Source: ONS, *UK Labour Market Statistics: Sept 2017*

From the perspective of low to middle income households, the surge of recent years has been especially positive. As Figure 2 highlights, virtually all of the employment gains between 2009-10 and 2015-16 have accrued to lower-income households. While the odds of being employed remain lower among poorer families, the gap has narrowed considerably. For example, households in the second decile – those with higher incomes greater than the bottom 10 per cent but less than the remaining 80 per cent – employment rates have jumped from 36 per cent to 44 per cent. This was notably more 'pro-poor' than in the last period of strong employment growth – from 1994-95 to 2001-02 – when employment gains were more evenly spread across the household income distribution.

Figure 2: Low income, high employment gains

Employment rates by decile of the equivalised net household income distribution



Notes: Households are included in this analysis if they contain at least one adult aged 16-69.

Source: RF analysis of DWP, *Family Resources Survey*

It's clear that the recent period of job creation has been impressive both in its scale and the extent to which it has benefitted low income households. But many have questioned the quality of these new jobs. This concern was part of the motivation behind the Taylor Review into modern employment practices. Anxiety about atypical and insecure work has grown alongside the number of people in these positions and evidence of worse pay and terms and conditions.[2] Growth in self-employment has been meteoric while zero-hours contracts transformed from a tiny proportion of all jobs to accounting for 2 per cent of all employee positions.

In recent months, signs of a tightening labour market have emerged with the number of people on a zero-hours contract remaining broadly flat at around 900,000 and the self-employed's share of overall employment holding steady at 15 per cent. While this plateauing of insecure work is welcome, today's labour market is markedly different from the one that prevailed a decade ago.

Pay continues to disappoint

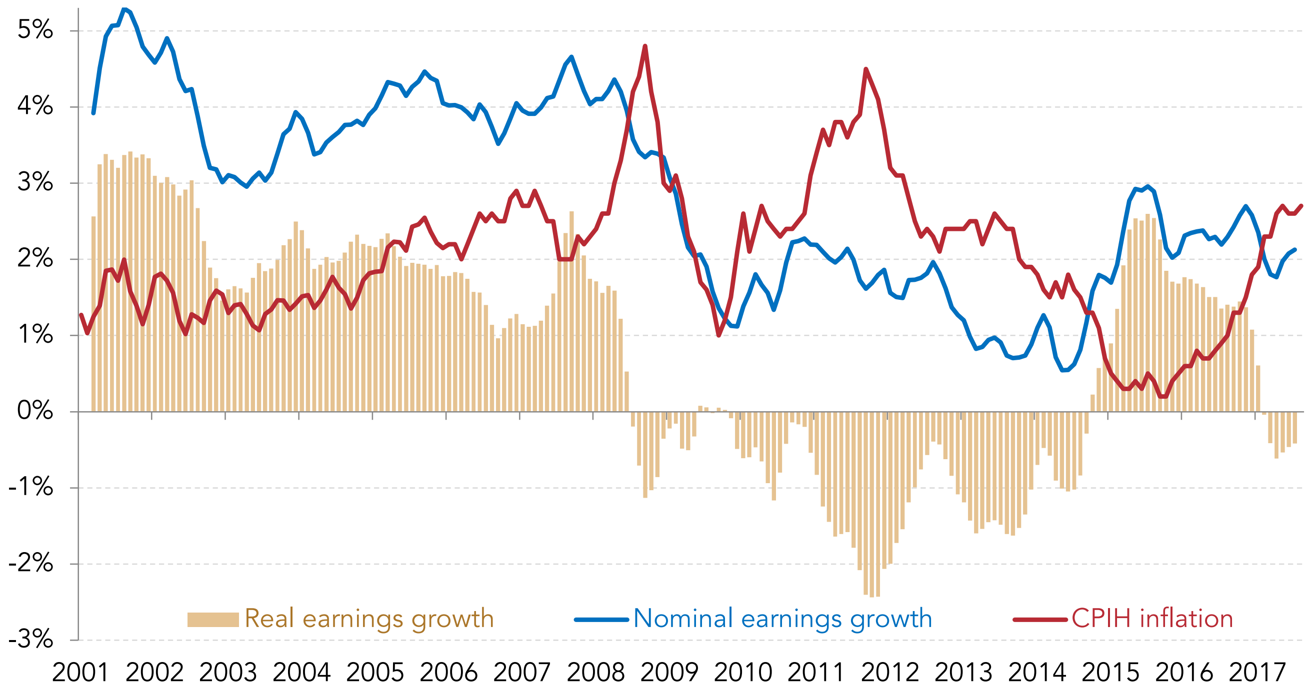
These question marks over job quality are seen as forming part of the explanation for shockingly bad pay performance of the past decade. Historically, a buoyant jobs market has tended to lead to healthy increases in pay packets. This time around, however, wage growth has not responded. As the blue line in Figure 3 highlights, nominal earnings experienced a step change at the start of the crisis in 2008, falling from a pre-crisis norm of around 4 per cent to barely above 1 per cent. The employment recovery from 2013 eased nominal pay higher but only managing a post-crisis peak

[2] See for instance L Gardiner, "A-typical year?", *Resolution Foundation blog*, December 2016, and L Judge and D Tomlinson, *Secret Agents: agency workers in the new world of work*, Resolution Foundation, December 2016

of just below 3 per cent in 2015. Since then, earnings have hovered between 2 per cent and 3 per cent, trailing the pre-crisis expectation and have risen especially slowly in recent months, falling as low as 1.8 per cent.

Figure 3: Squeezed again

Annual growth in average weekly earnings (regular pay) and CPIH inflation



Notes: Year-on-year change in three-month average

Source: RF analysis of ONS, *Labour Market Statistics: Sept 2017* and *UK consumer price inflation: August 2017*

For families' budgets though, what really matters is the interaction between wages and price rises. Inflation spiked at the start of the financial crisis as sterling devalued. A sharp drop in CPIH in 2010 thanks to falling oil prices but from inflation crossed the 4 per cent threshold once again in 2011. In the following years and particularly in 2015, once again due to cheaper oil, inflation tumbled almost approaching zero under CPIH. The EU referendum brought this period of ultra-low inflation to a close however with the weaker pound pushing up prices again. CPIH stood at 2.7 per cent in August 2017.

Taken together, these two trends mean real pay fell sharply for three years after the start of the crisis. A temporary rebound in 2015 but another squeeze began in 2017. The bump in prices that is in part driving this squeeze is projected to 'pass through' the headline inflation figures meaning real-terms pay growth is expected to return in 2018.[3] Nonetheless, from the point of view of pay, the past decade has been an historically bad one. Given the unresponsiveness of wage growth to strong employment figures, there appears little evidence of a much-needed bounce in typical pay packets.

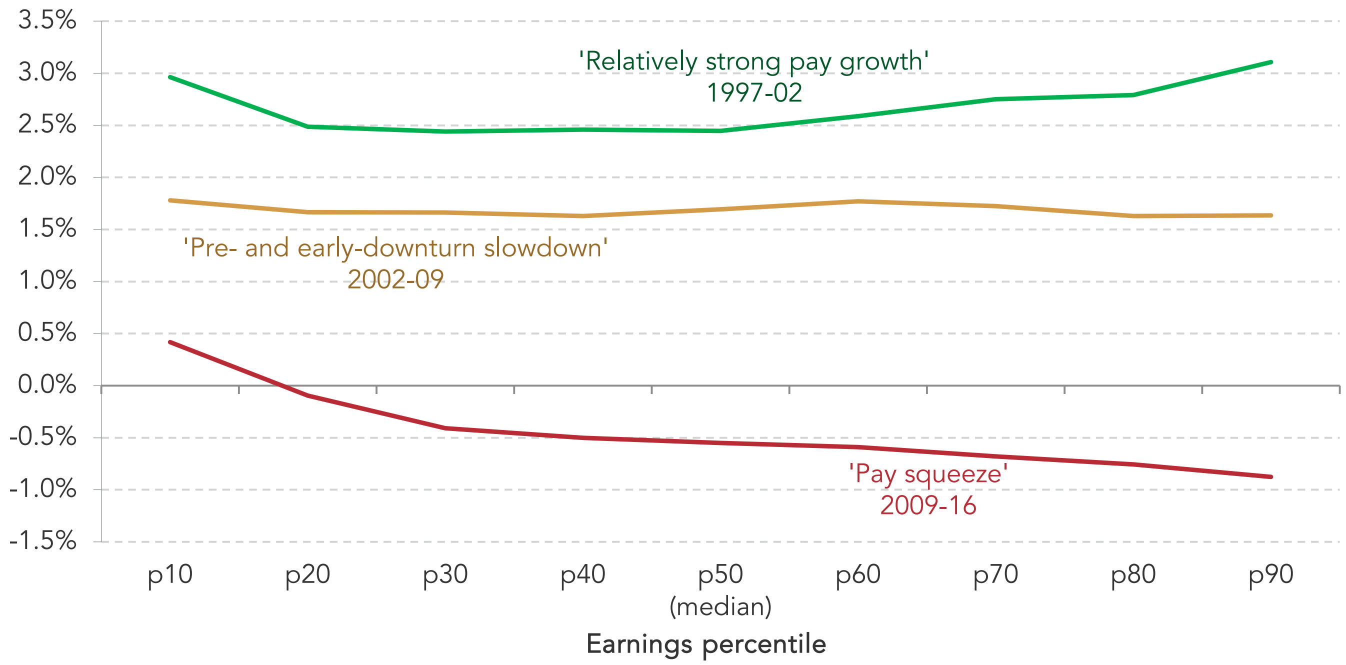
[3] S Clarke et al, *Are we nearly there yet? Spring Budget 2017 and the 15 year squeeze on family and public finances*, Resolution Foundation, March 2017

The National Living Wage has begun to transform the labour market

As with employment gains, the hit to wages has not been felt equally. Younger workers, men and those working full-time have experienced a deeper pay squeeze than older and part-time workers. But focusing on low pay, the most important trend is how wage growth has varied across the earnings distribution. Figure 4 charts what different parts of the past two decades have meant for pay growth from the lowest earners to the highest. In both 1997-2002 and 2002-2009, wage growth was broadly equal across the distribution. The period from 2009 to 2016 marked a break from this pattern however with only the very lowest earners escaping from the pay squeeze that has dogged everyone else further up the pay ladder.

Figure 4: No squeeze for the bottom

Average annual growth in hourly earnings across the distribution, CPIH-adjusted

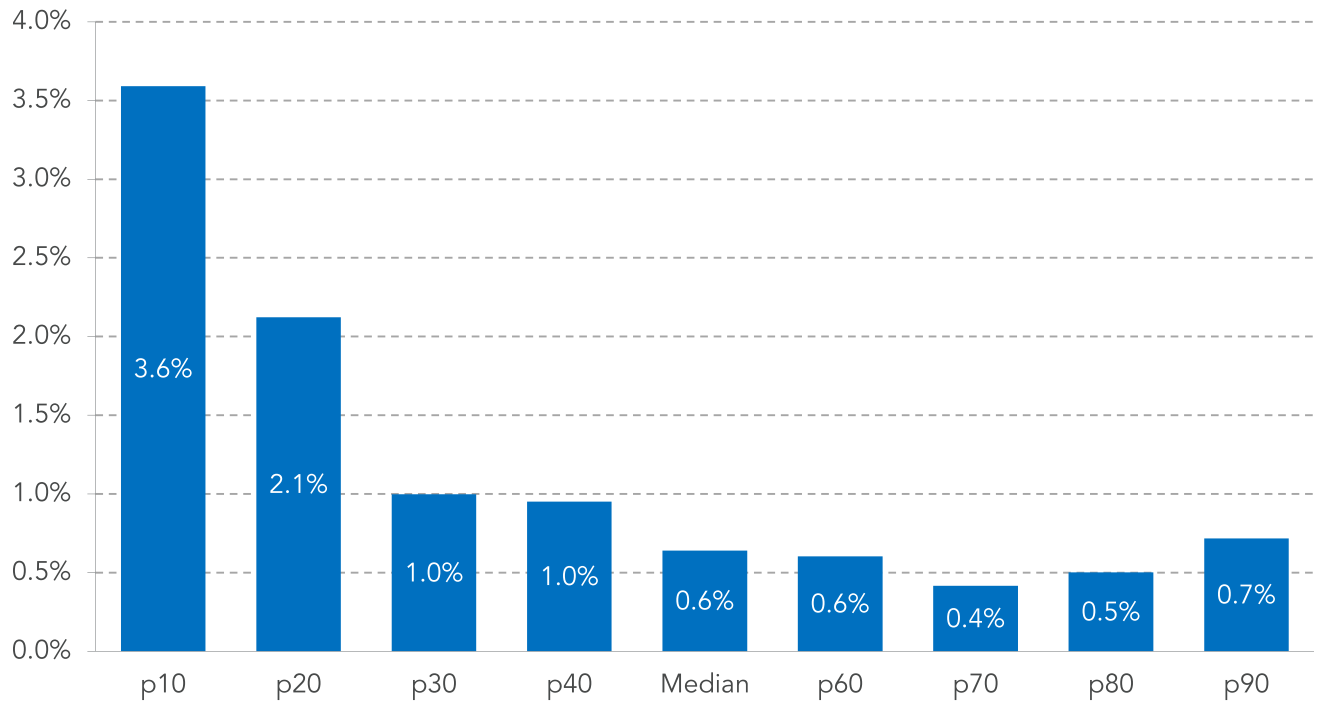


Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

While the NMW did fall in real-terms following the crisis, the squeeze at the bottom was smaller than for typical earners. The introduction of the NLW – the higher minimum wage for those aged 25 and over – has only added to this divergence. Figure 5 isolates the impact of the NLW as the wage floor rose from £6.50 in April 2015 to £7.20 in April 2016, with a 3.6 per cent real-terms increase for those at the 10th percentile compared to a meagre 0.6 per cent rise at the median. In April 2017, the NLW reached £7.50, a smaller nominal increase of 4.2 per cent but, as we have seen, still well ahead of typical pay growth. The data used in Figures 4 and 5 bring us up to April 2016. The ONS will publish the April 2017 data in October 2017 but this should show a continuation of this trend.

Figure 5: Low pay but high growth

Real-terms annual growth in hourly pay by percentile (CPIH-adjusted): UK, 2016



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

So far in this Section we have established the failure of pay to respond as expected to an apparently tighter labour market. Given this backdrop, the perennial question about the impact of a higher wage floor on jobs is of particular pertinence. This is especially true as the NLW is represents a conscious government decision to accept a fall in low-paying jobs – the OBR estimates a drop in the numbers in employment of 60,000 by 2020 – as a result of a higher wage floor.

The Low Pay Commission (LPC) will publish its latest in-depth research exploring the NLW's impact alongside its recommendation for the new rate at the 2017 Budget. But it is possible to provide an indicative picture of how the lower end of the UK's labour market has adapted to the rising wage floor, and scan for evidence of unwanted effects.

One way to achieve this is to contrast the labour market fortunes of those more likely to be affected by the NLW with groups that are generally higher paid. Figure 6 compares different kinds of employee, some of whom are more likely to be affected by the NLW – women, part-timers, temporary employees, those aged 25-34 and those working in low-paying industries.

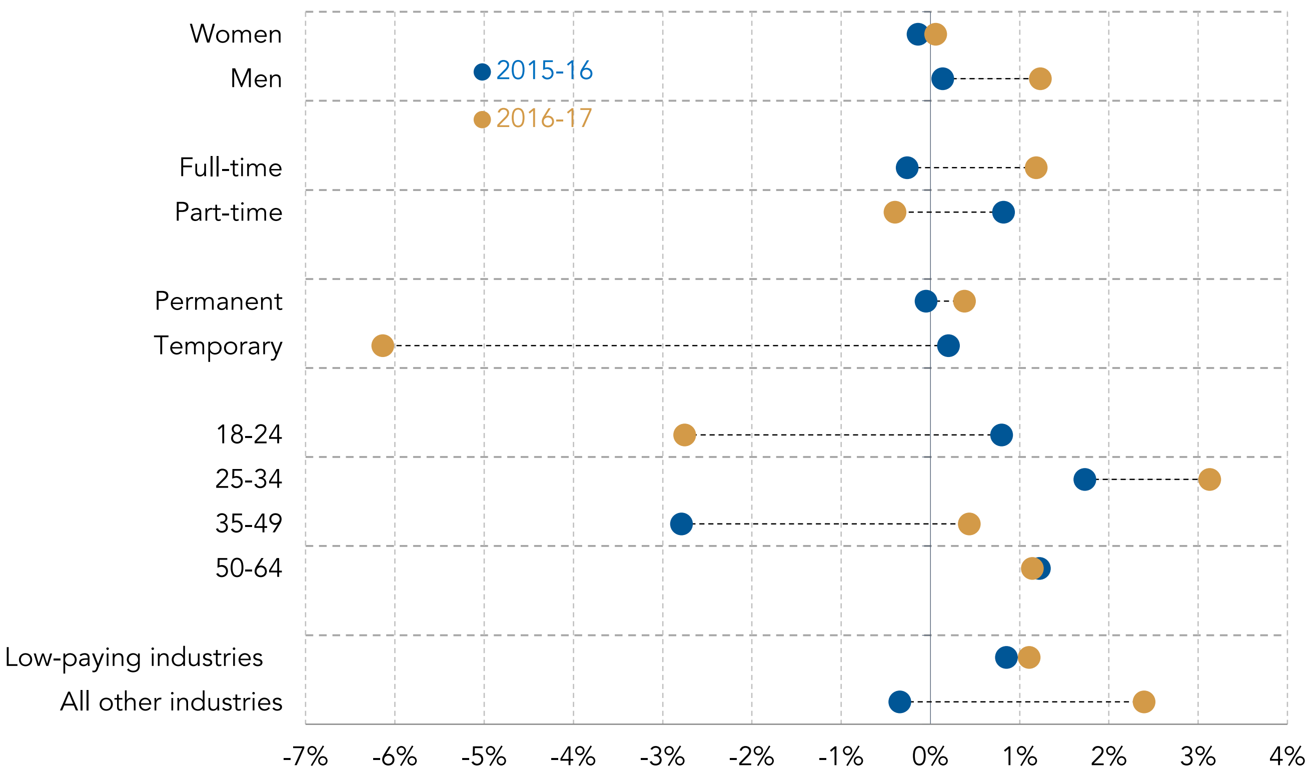
To focus on the impact of the NLW, we examine the period from April-June 2015 (prior to the NLW's announcement) to April-June 2016 when the NLW came into force, and the following year up to April-June 2017 when it rose to £7.50. While this time period does not split into a pre- and post-NLW timeline, as in previous Resolution Foundation,[4] we here split out the introduction and the first increase to explore if any effects have become visible to 2017 as the rate and the bite rose higher.

[4] C D'Arcy and M Whittaker, *The first 100 days: Early evidence on the impact of the National Living Wage*, Resolution Foundation, July 2016

We consider compares the change in the size of these groups – for instance, are there more or fewer part-time employees than this time last year? – with the overall change in the number of employees. This means that an apparent slight fall in a category in Figure 6 does not mean that there are fewer of this kind of employee, merely that that group has grown less quickly than the number of employees as a whole.

Figure 6: Big falls in temporary and part-time work thanks to a stronger labour market

Change relative to percentage growth in employee numbers: UK, 2015 Q2-2017 Q2



Source: RF analysis of ONS, *Labour Force Survey*

While other factors are likely to be important – some of which are discussed below – if the groups that are most likely to be affected by the NLW have experienced significantly weaker growth than other parts of the workforce, it may suggest the NLW is acting as a drag. For most kinds of employee in Figure 6 however, such a trend does not appear visible. The number of female employees – more likely to be on the NLW – has differed little from men over this period, both matching the overall change quite closely.

A different picture develops for full-time and part-time and permanent and temporary employees however. While trends for these groups were quite similar in 2015-16, in 2016-17 the patterns were noticeably different. Compared to the growth in employees overall, the proportion of part-time employees fell by 1.7 per cent and by 6.2 per cent among temporary employees. This also contrasts with rising numbers of full-time and permanent employees.

At first glance, this could be a cause for concern. But viewing these changes in isolation from wider labour market conditions misses out a key piece of evidence. Generally speaking, a tightening labour market should lead to fewer people working in part-time or temporary positions due to a lack of better options.

Improvement in the labour market over 2016 and 2017 does appear to be the main driver of this trend. The number of people in temporary jobs because they could not find permanent work fell by 93,000 over this period. This was opposed to a total drop in temporary work of just under 81,000, as the number of people in temporary work for "some other reason" rose by 45,000. The number of people working part-time because they couldn't find a full-time role fell by 122,000, versus a 15,000 drop overall with that balance driven by a rise in the number of people who did not want full-time work. A falling proportion of temporary and part-time employees therefore appears to be a signal of a healthy labour market rather than one being negatively affected by the NLW.

When it comes to age, the group usually considered to be most at risk from the NLW are those aged just over the relevant threshold; in this case, 25-34 year olds. But as Figure 5 shows, 25-34 year olds experienced the fastest growth in employee numbers over 2015-16 and were second only to those aged 50-64 in 2016-17.

Interestingly, given discussion over whether a wider gap between the National Minimum Wage (NMW), which now only legally applies to 21-24 year olds, and the NLW (25+) would lead to rising employment rates for younger workers, this does not appear to have occurred. The number of employees aged 18-24 actually shrinking in 2016-17. This could be evidence of the NMW being too high relative to the NLW but changing demographics and the continued trend of younger people remaining in education for longer may also underlie this shift. The relative fall in employee numbers among prime-age workers (35-49 year olds) is surprising but given this group is least affected by the NLW, a higher minimum wage does not appear to be the most likely culprit.

But perhaps the kind of employee most likely to be affected by the NLW are those working in low-paying industries.[5] The number of employees in low-paying industries rose more quickly than in non-low-paying industries in 2015-16. This pattern reversed in 2016-17, with the number of employees in low-paying industries rose by 0.2 per cent more slowly than employees overall, compared to other industries which rose 0.1 per cent more quickly than average. While the NLW could be contributing to this slightly slower growth in 2016-17, the relatively small difference in growth and the fact low-paying industries grew more strongly in 2015-16 does not suggest that the NLW is having a particularly worrying impact in these sectors.

Taken this evidence together, encouragingly Figure 6 confirms that the kinds of people more likely to be in low-paid work – women and those aged 25-34 – are showing little signs of having had their employment prospects adversely affected by the NLW. Though there is inconclusive evidence of the impact on low-paying industries, from the point of view of low earners themselves as well as the UK economy, a shift away from such sectors while maintaining high employment is the ideal outcome.

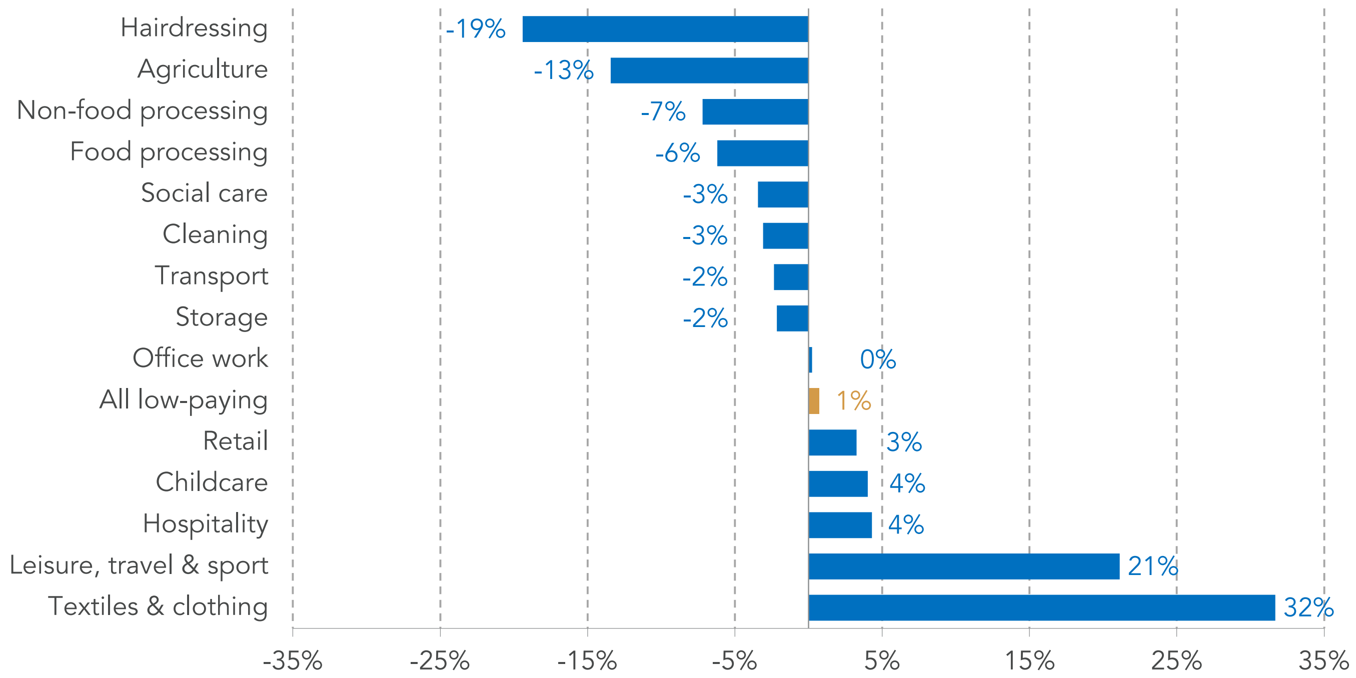
Of course, even within generally low-paying industries like those considered above – for instance hospitality and retail – there will be many employees paid well above the NLW or the median wage. To better focus our analysis, we can zoom in on just the low-paying occupations within these low-paying industries. Even this more focused approach will retain some higher-paid individuals; given there are 7.6 million employees in these roles, at least one-third of these must not be classed as low paid. Nonetheless, the analysis below provides a more granular view of how some of these sectors are adapting.

Figure 7 shows the change in the number of employees in these roles between the second quarter of 2015 and the second quarter of 2017, the period covering the announcement of the NLW (July 2015), its introduction (April 2016) and its first increase (April 2017). Overall, employment growth in these specifically lower-paying occupations was weaker than across low-paying industries as a whole, with the number of employees expanding by 0.7 per cent over the two years we consider, versus 3.8 per cent in all other non-low-paying occupations.

[5] Low-paying industries and occupations are defined by the Low Pay Commission. See Table A3.2 on page 223 of the Low Pay Commission's Autumn Report 2016. We do not separate out the individuals on low wages in these industries from those who are better paid. This is partially because of the relative unreliability of wage data in the Labour Force Survey on which this analysis is based, but also because of the possibility that rather than using less very low paid labour, which may be very hard to replace, it is higher-paid positions that are removed.

Figure 7: Sectoral healing or industrial disputes?

Change in number of employees in low-paying occupations by industry: UK, 2015 Q2-2017 Q2



Notes: For some less common occupations in some years, the ONS suppresses the number of employees due to the small number of individuals covered. For consistency over time, Figure 6 does not include occupations for which data was suppressed in either 2015 or 2017. This may ignore falls or rises in specific occupations.

Source: RF analysis of ONS, *Labour Force Survey*

As is clear from Figure 7, that single growth figure conceals wide variation. In retail, childcare, hospitality, leisure, travel and sport and textiles and clothing, the past two years have brought growth. But it is also clear from Figure 7 that in a number of industries, and in particular hairdressing and agriculture, there has been a steep drop in the number of people in employee roles.

Previous Resolution Foundation research suggests that agriculture, apart from gradual shifts towards increased automation, has managed the rising wage floor without disruption. For a number of employers interviewed in mid-2017, Brexit and its potential effect on EU migration was viewed as a much more pressing challenge than the NLW.[6] The trend in hairdressing is complicated too, with the rise of self-employed hairdressing a trend discussed in previous Resolution Foundation analysis for the Low Pay Commission.[7] While this could reflect a genuine shift in working patterns, this may also be a means of avoiding both the NLW and employer National Insurance Contributions. Given the size of both these shifts, further research into their drivers would be of merit.

By way of exploring the differential employment performance of detailed sub-sectors before and after the implementation of the NLW, we can calibrate employment gains and losses using overall employment growth as a baseline. To try and minimise the potential impact of trends in the UK's

[6] S Clarke, "Filling in the gaps: Preparing for the end of free movement" in ed. S Clarke, *Work in Brexit Britain: Reshaping the Nation's Labour Market*, Resolution Foundation, July 2017

[7] C D'Arcy, *Industrial strategies: Exploring responses to the National Living Wage in low-paying industries*, Low Pay Commission/Resolution Foundation, December 2017

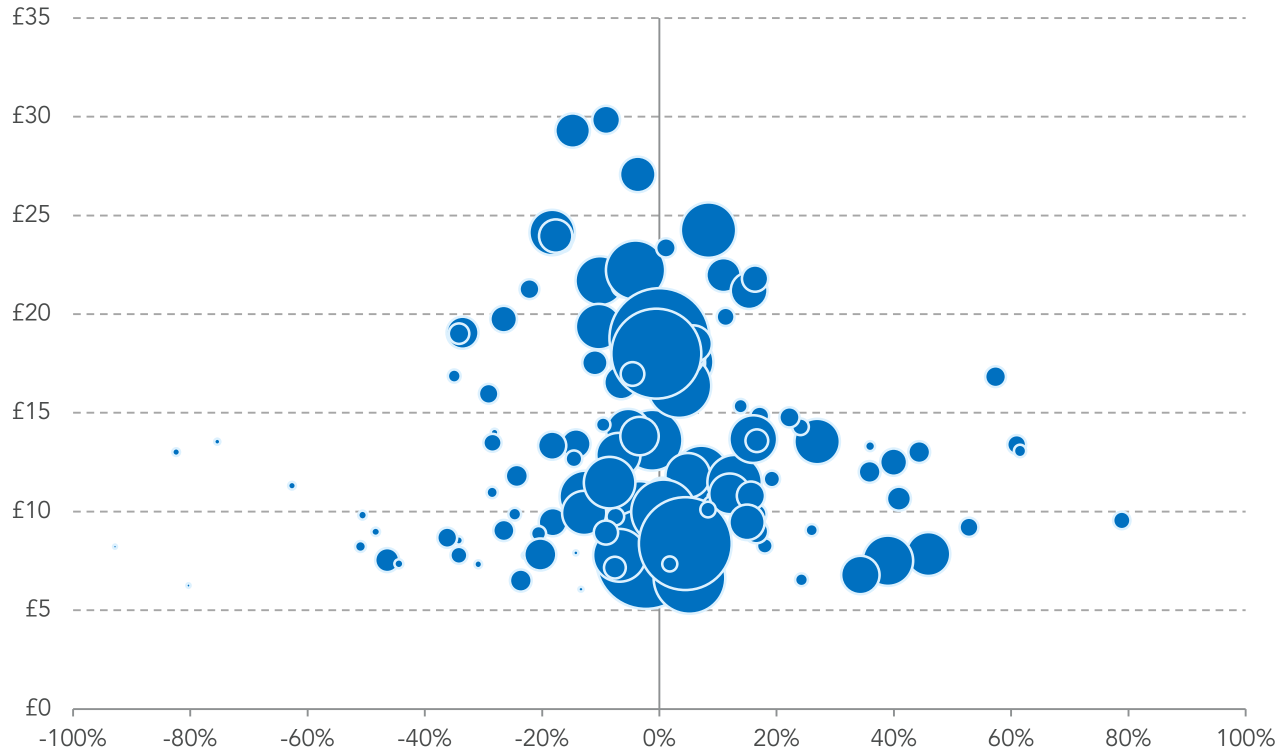
industrial mix or consumer habits, employment patterns and the UK's industrial mix, Figure 9 separates out each high-level industry into the nine commonly-used occupational categories.

For example, within wholesale and retail, there is a bubble that represents people in elementary occupations and another for people in management positions with the size of the bubble reflecting the number of employees in that group. The average hourly wage in the second quarter of 2015 is shown on the y-axis, with the lowest paying industries towards the bottom of the chart. The x-axis takes the change in the number of employees within a cluster – for example, skilled tradespeople in manufacturing – and compares it to the overall change in employees.

To test whether there is evidence of low-paying jobs growing more slowly in 2017, Figure 9 compares the 2015-16 ratio of growth in each cluster to employees overall with the 2016-17 ratio. If a cluster falls to the left of the vertical axis, this means its pace of growth versus employees overall has slowed compared to 2015-16. In short, if lower-paying clusters were concentrated primarily in the lower-left quadrant of the chart, this would suggest there were fewer low-paying roles. A quick glimpse of Figure 9 makes clear this is not the case. Though growth in some low-paying clusters appears to have slowed down, similar effects are visible among higher-paying positions.

Figure 8: Cluster headache?

Change in ratio of growth in employees relative to all employees (2015Q2-2017Q2) by industry-occupation grouping and pay within industry-occupation (2015Q2)



Source: RF analysis of ONS, *Labour Force Survey*

Once again, the lack of any clear pattern suggest there has been no systematic NLW effect. Nevertheless, there are some significant shifts in industries worth reflecting on. Though a small part of the transport industry, the number of employees that are tyre, exhaust and windscreen fitters – a low-paying part of the sector – almost halved between 2015 and 2017, from 18,600 to 9,600. While childminders comprise a comparatively small share of low-paid employees, the percentage drop there has been sharp – falling by 25,600. But at the same time, nursery nurses and assistants has grown by 48,000. While these two categories may not be perfectly substitutable – childminders are on average slightly younger than nursery nurses and assistants – this may represent changing consumer demand, especially given the number of employees in childcare as a whole has grown by 4 per cent over this period, as shown in Figure 6.

A final way of examining the question of the impact of the NLW is to compare employment rates of those who are most likely to be in low-paying jobs. One of the key determinants of wages is the level of education a person has. In order to explore their employment prospects, we split people into two groups: those with at least five A*-C GCSEs or equivalent, and those without (including those with 'other qualifications' which may include non-UK born individuals with higher skills).

The number of employees in the lower-qualified group fell by 4.4 per cent between 2015 and 2017, while the number in the higher-qualified group rose by 5 per cent. But because those with low or no qualifications are becoming a smaller part of the overall 16-64 population over time, these findings need to be put into context against changes within the overall group. Between 2015 and 2017, the number of people in the lower-qualified group fell by 7.9 per cent, a much larger fall than is evident for the number of employees in this category. This tallies with the evidence in Figure 2 that low-income households – among whom those with low education levels are concentrated – have been the beneficiaries of much of the employment growth in recent years.

Together, this suggests that the NLW is clearly having the desired effect: boosting the wages of those at the bottom of the ladder. And the limited evidence presented above indicates that some low-paying sub-sectors or occupations have shrunk which may be linked to the NLW, this has been achieved without significantly harming the employment prospects of low earners. In fact, evidence of a shift away from low-paid parts of the economy towards higher-paid, all at a time of record high employment is a positive result. In Section 2, we turn to the impact these labour market trends, and in particular the NLW, have had on low pay to date before turning to projections for low pay up to 2020.

Section 2

Low pay in 2016 and beyond

The number of people that are low paid fell significantly in 2016. Just over 5.1 million employees were low paid in April 2016, 305,000 fewer than a year previously. For the first time since the 1980s, the proportion of employees that are low paid was slightly below one in five, with that downward trend set to continue in the coming years. We project that by 2020, 16 per cent of employees will be low paid, the lowest since the late 1970s and early 1980s. The corollary of this positive shift however is that more and more people – on course to peak at nearly 14 per cent in 2020 – are expected to be paid at or close to the minimum wage. For the industries and places in which low pay is already widespread, this new era will bring with new challenges. And while the National Living Wage has provided a timely boost to the pay packets of low earners, the number of employees earning less than the voluntary Living Wage continued to rise in 2016, to 6.2 million. A rising wage floor is a welcome first step in getting to grips with low pay but a more comprehensive plan will be required if further progress is to be made.

The end of an era

This is the seventh edition of the Resolution Foundation's annual report on low pay. While change has occurred *within* groups over that time – for some the risk of low pay has risen while for others it has receded – the proportion of employees that are low paid under our core definition has varied little. (See Box 1 below for descriptions of the three measures of low pay we use.)

i Box 1: Measures of low pay

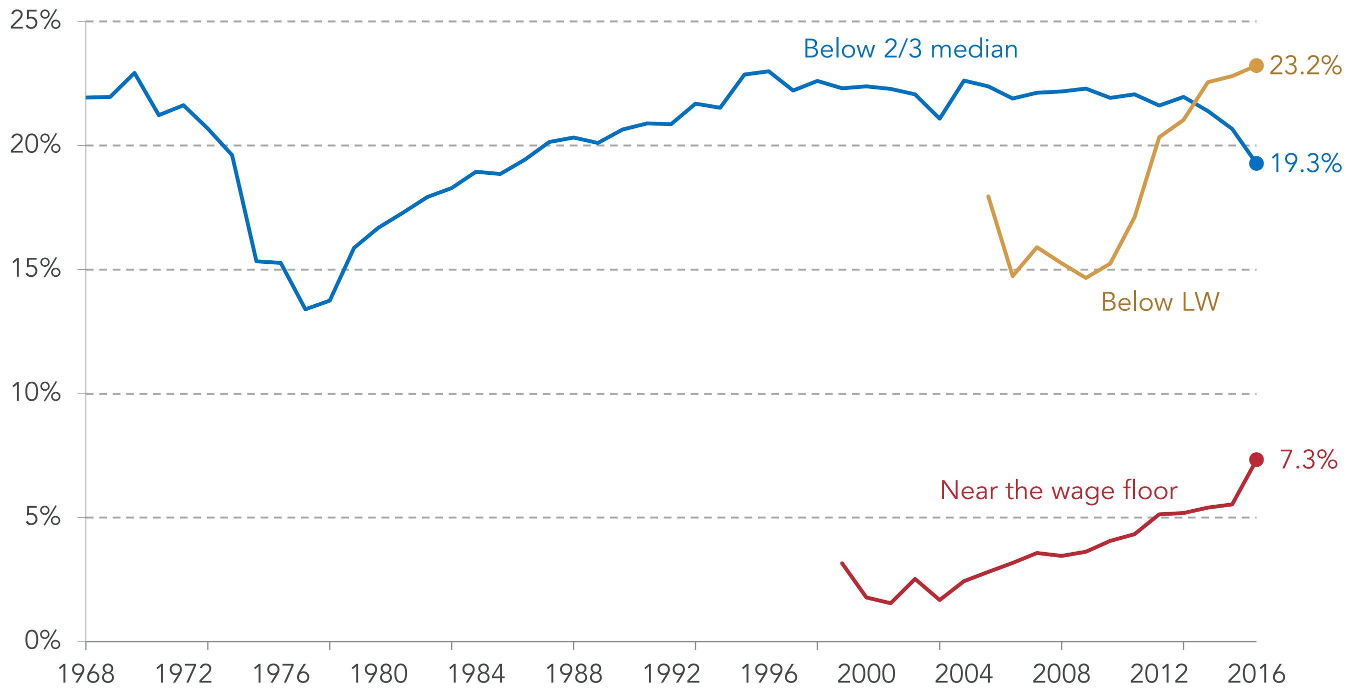
There are lots of specific definitions of low pay, but broadly these can be classed into two types: relative and absolute measures. Relative measures of low pay classify someone as low paid if they earn below a specified percentage of a certain level of pay (commonly the mean or median pay rate). Absolute measures of low pay designate someone as low paid if they earn below a specific amount. We use both types of measures. Specifically, the three measures that we use are:

- A 'core' low pay definition: this is based on the approach taken by the OECD and captures those employees with hourly earnings (excluding overtime and premium payments) less than two-thirds of the national median across all workers. This threshold was equivalent to £8.07 an hour in April 2016.
- A 'needs-based' low pay definition: this aims to relate pay levels to the cost of living by capturing those employees earning less than the Living Wage rate in their area. We use the rates used by the Living Wage Foundation and in place in April 2016: the London Living Wage rate of £9.40 and the UK Living Wage rate of £8.25. We take a workplace approach, so that individuals are considered low paid if they earn less than the appropriate Living Wage in the area where they work i.e. the London rate applies to people working in London.
- A 'wage floor' definition: this captures those employees earning at (or up to 1 per cent above) their age-appropriate minimum wage. In April 2016, the wage floor for those aged 25 and over was £7.20 an hour, with lower legal minimums applying to younger workers and first-year apprentices.

Since 1987, the share of employees earning less than two-thirds of the median hourly wage has always been at least 20 per cent. This diagnosis of low pay as a serious problem that was unlikely to disappear without action was a common thread running through *Low Pay Britain* over the years. For that reason, the change visible in the 2016 data – as displayed in Figure 9 – is a particularly welcome one. The share of employees that are low paid was 19.3 per cent, falling below 20 per cent for the first time in 30 years. This means that just over 5.1m people were earning less than the low pay threshold, a drop of 305,000 since 2015. As such, 2016 represented the largest single-year fall for which we have a consistent data set (dating back to 1997) and the sharpest drop in percentage terms in 40 years. This success – primarily thanks to the NLW – is evidence that targeted government policies can bring about significant improvements in the labour market.

Figure 9: The long view of low pay

Proportion of all employees below selected low pay thresholds: 1968-2016, GB



Source: RF analysis of DWP, *Family Expenditure Survey;* ONS, *New Earnings Survey Panel Data;* ONS, *Annual Survey of Hours and Earnings*

Unsurprisingly, it is within the groups that are most likely to be low paid that the largest falls have occurred. Though women still comprise the majority of the low paid, their share has gradually shrunk from three-quarters of all low paid employees in the 1970s to just over six in ten in 2016. The proportion of women that are low paid is at its lowest ever – 23.4 per cent – and for the first time less than one in four female employees were low paid.

Table 1 highlights a drop of 184,000 since April 2015. Among men, 15.1 per cent are low paid, a healthy fall from last year's rate (16.2 per cent).

Table 1: Low pay falling

	Proportion low paid		Number low paid	
	2016	Change from 2015	2016	Change from 2015
Total	19%	-7%	5,114,000	-305,000
Age				
16-20	75%	-3%	1,039,000	-12,000
21-25	37%	-7%	724,000	-48,000
26-30	18%	-10%	655,000	-62,000
31-35	14%	-5%	427,000	-16,000
36-40	12%	-10%	351,000	-30,000
41-45	13%	-5%	412,000	-34,000
46-50	13%	-7%	448,000	-40,000
51-55	13%	-10%	410,000	-29,000
56-60	15%	-6%	334,000	-6,000
61-65	17%	-8%	191,000	-11,000
66+	24%	-11%	123,000	-18,000
Sex				
Male	15%	-7%	2,008,000	-121,000
Female	23%	-7%	3,106,000	-184,000

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Dividing up the population by age, young people remain much more likely to be low paid, with 75 per cent of 16-20 year olds and 37 per cent of 21-25 year olds earning below the low pay threshold. The proportion of 16-20 year olds that were low paid has fallen despite the NLW only legally applying to those aged 25 and over, but the 3 per cent drop since last year is the smallest of any age group. In terms of the numbers low paid, the largest reduction was among those aged 26-30. Interestingly, employees at the other end of the age spectrum – those aged 66 and over – experienced the largest drop in the proportion of the group that is low paid, falling by 11 per cent from 27 per cent to 24 per cent.

We next turn to the types of jobs done by low-paid people. The number of low-paid employees in retail and wholesale fell by 145,000, though 36.2 per cent of employees in the sector are low paid (1.4m people). Accommodation and food services remains the industry with the highest prevalence of low pay – 60.9 per cent of employees – but, again, this proportion has fallen from 64.8 per cent in 2015. For the number and proportion of low-paid employees in each industry, as well as by a range of other characteristics, Table 2 in Section 5 provides an overview by different low pay measures.

While the NLW has clearly to begun to reshape the lower end of the labour market in an encouraging way, Figure 10 also highlights that much more remains to be done to get to grips with low pay with the other two lines – the share paid below the Living Wage and the proportion at the NLW – rising in 2016. The proportion paid at the wage floor is at a record high, with 7.3 per cent of employees earning close to the minimum wage. Although this is an inevitable result of a higher NLW it nonetheless presents challenges which will be discussed in greater detail below.

And though a very useful metric, our core low pay definition is a somewhat arbitrary one. The voluntary Living Wage however is intended to reflect how much different family types need in order to have a decent standard of living. And it is notable that despite the positive picture painted above, the proportion of people earning less than the voluntary Living Wage continued to rise in 2016. A record 6.2m employees earned less than the Living Wage - £9.40 in London and £8.45 in the rest of the UK – up from 6m the year before. This serves as a reminder that although low pay is becoming less common, meeting a decent standard of living has become tougher for many people. As discussed in the previous Section, the return to above-target inflation in 2017 and real-terms cuts to in-work support like tax credits means that for many in this group, the NLW only blunts the hit to their living standards. This is a topic raised in our focus groups and one to which we return in the next Section.

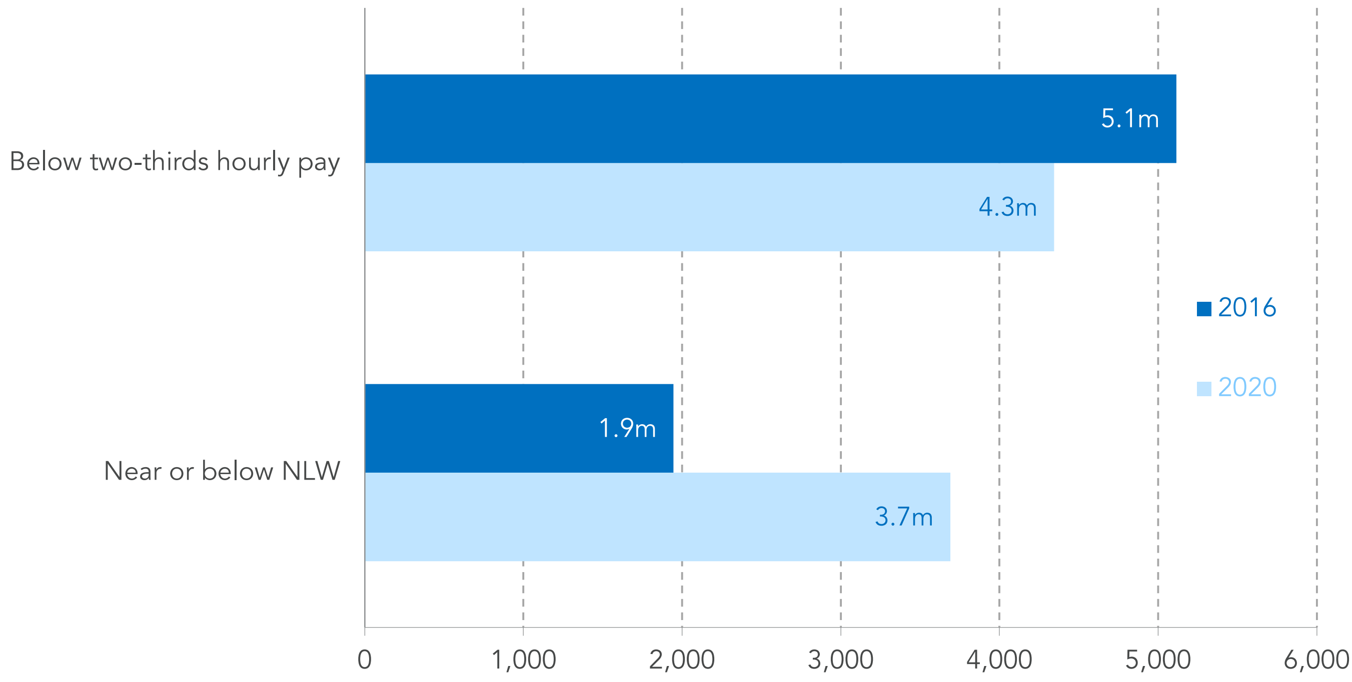
Projecting forward to 2020

The welcome drop in low pay represents only the first of an expected five years in which the NLW will rise faster than median wages. Although the second of those five increases has already taken place in April 2017, the detailed data on its impact is not yet available. With prices rising quickly once more, the proportion paid below the Living Wage may well have risen once again. But the share of employees that are low paid is likely to have fallen again with that pattern continuing to 2020. The exact pace at which this occurs depends on the precise values of the rate recommended by the Low Pay Commission (LPC) in each year, as well as the pace at which the median wage rises. But using wage growth projections from the OBR and estimates of the 'bite' of the NLW – its value as a percentage of the median wage – from the LPC, we can offer a sense of the trajectory of the wage floor and what it will mean for low pay.

Figure 10 points toward the two key shifts in the low pay landscape over this period. First, the number of low-paid people should continue to fall. By 2020, 16.2 per cent of employees are projected to be low paid which, given estimates for growth in the workforce, is equivalent to 4.3m people. While this encouraging scenario would bring the share of people that are low paid to close to its low point in the late 1970s and early 1980s, this nonetheless means millions of employees will remain low paid. Because the NLW is scheduled to peak in 2020 relative to the median wage, there is little reason to assume that low pay will continue to fall beyond that point.

Figure 10: Low paid down, minimum wage earners up

Projected change in the number of employees by low pay measure: GB, 2016-2020



Notes: For further detail of how wage growth is projected forward see Annex 1.

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Further action will therefore be required to help more of these nearly one-in-six employees to escape from low pay. The UK is unlikely to ever reach a position where no one is low paid, putting to one side whether such an achievement would be desirable. But with the best-performing advanced economies managing to have less than one in ten employees in low pay, there remains scope for progress.[8] And while a falling share of low pay is of course welcome, the *depth* of low pay remains an important issue. With the NLW likely to be roughly equal to two-thirds of the all-worker median hourly wage by 2020 – our core low pay threshold – this may result in volatile changes from year to year. But if millions of workers remain a few pence above this threshold, low pay can hardly have been deemed to have tackled effectively.

As well as being insufficient to solve the UK's low pay problem, the NLW may push other concerns to the fore. Chief among those is progression. The question of whether low-paid work is a springboard to higher earnings is not a new one however. Previous Resolution Foundation research found that only one in four of those who were low paid in 2001 had managed to move consistently above the low pay threshold a decade later.[9] This has led to discussion of the effectiveness of career paths in low-paying sectors and what could be done to help more people progress onto higher wages.

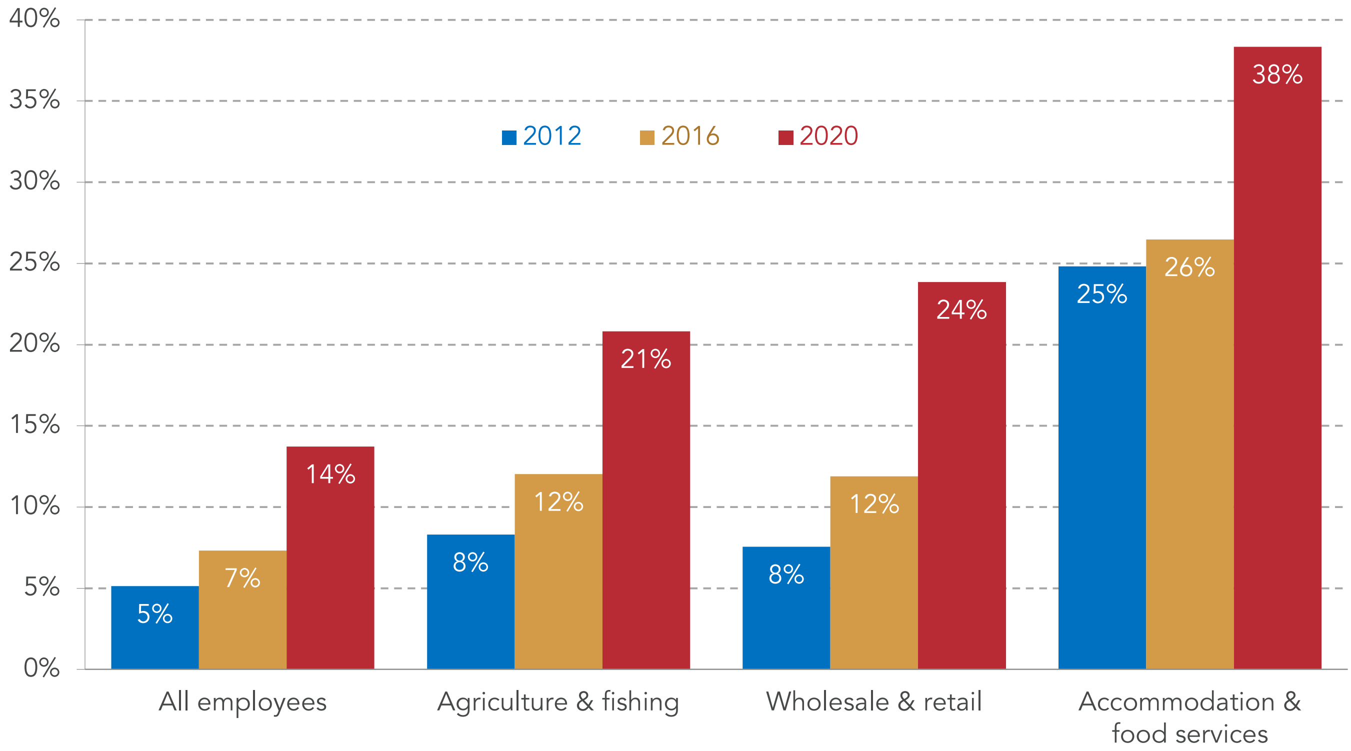
[8] http://stats.oecd.org/

[9] C D'Arcy and A Hurrell, *Escape Plan: Understanding who progresses from low pay and who gets stuck*, Social Mobility Commission/Resolution Foundation, November 2014

The NLW will make this issue all the more pressing. As Figure 11 shows, across all employees and industries the proportion of people earning at or very close to the wage floor is on course to rise from 7.3 per cent to 13.7 per cent. In low-paying sectors like agriculture, retail and hospitality, the scale of the impact is expected to be larger still. In wholesale and retail, the share of employees paid at the wage floor is set to have tripled between 2012 and 2020 from 8 per cent to 24 per cent. And while very low pay has long been established in accommodation and food services – due in part to its young workforce and the top-up that tips (not included in our measure) provide – the NLW is still likely to provide a challenge when 38 per cent of employees are paid at the wage floor.

Figure 11: Squeezed bottom

Proportion of employees paid near the NMW/NLW by industry: GB, 2016



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

The importance and difficulty of progression is a topic we return in the next Section. But previous research on low-paying sectors has identified managing the pay gaps between entry-level employees and those on the next rung up – supervisors or managers – as one of the challenges employers are facing.[10] Filling vacancies for roles that entail more responsibility and stress but offer only a small hourly uplift after tax and benefits are calculated is already flagged by employers as problematic. With the pay of the lowest earners rising so rapidly, this narrowing of differentials has been unavoidable in many firms. While manageable for most firms so far, job design and career ladders look set to become increasingly crucial to firms seeking to attract the best staff.

[10] ibid

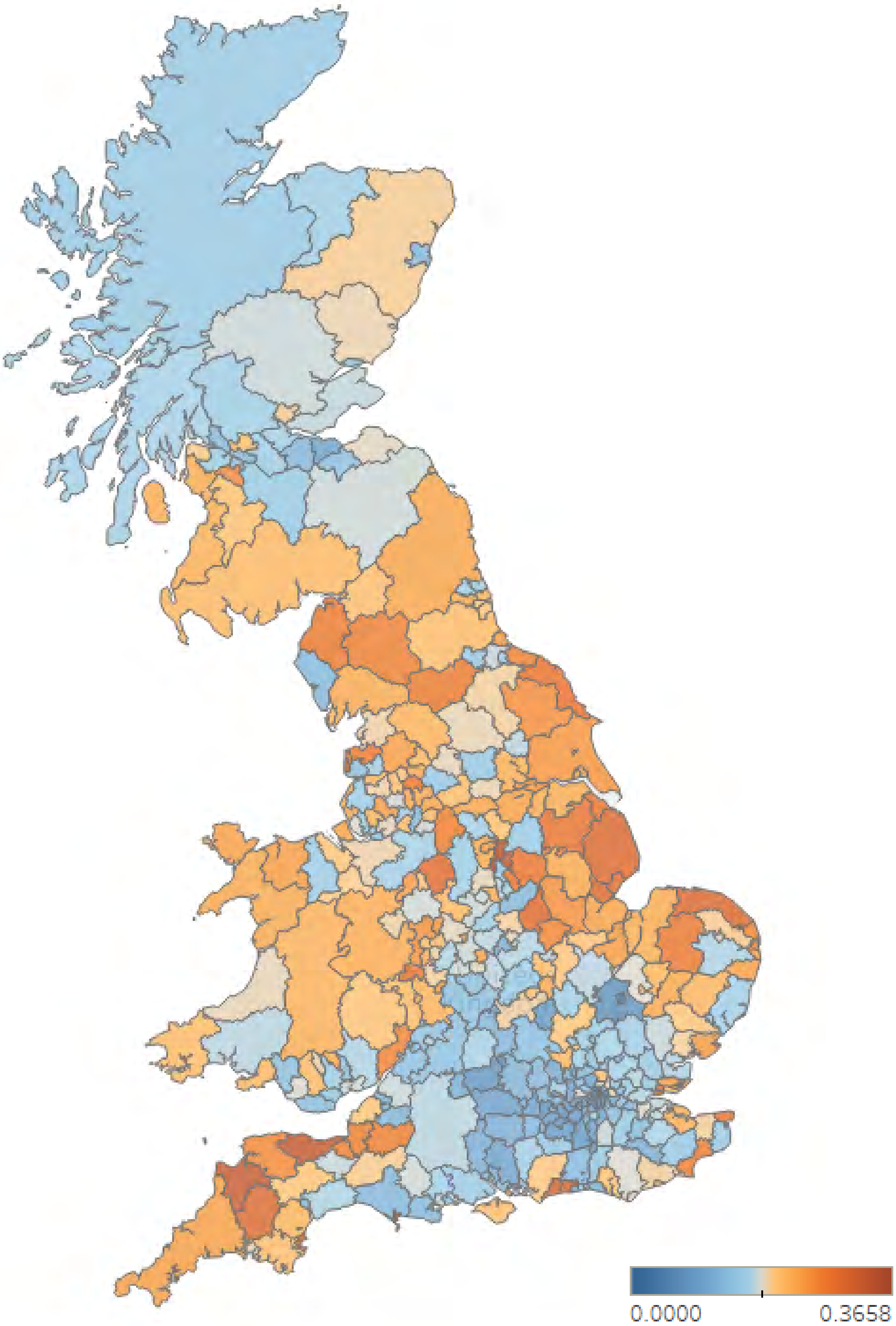
Low pay across the country

It is not only in low-paying industries that the impact of a higher wage floor will be felt. The national picture presented above obscures great variation across Britain. Some local authorities will face much higher rates, as the map in Figure 12 illustrates.

The reasons these areas are low pay 'hotspots' are likely to vary from place to place. In some, the dominance of a local low-paying industry appears key. In Weymouth and Portland for example, where 37 per cent of employees are projected to be low paid in 2020, an above-average proportion of the workforce is employed in hospitality. In Boston, heavily dependent on agricultural work, the low pay rate is only forecast to drop to 30 per cent. With a high share bunched at the NLW in these industries, further initiatives would be required to help more people into better-paying work. The government should include these large-employing if less glamorous sectors in its industrial strategy, making a successful adaptation to the NLW one of its aims.

Figure 12: Local issues

Proportion of employees projected to be low paid in 2020 by local authority



Source: Resolution Foundation analysis of ONS, ASHE and OBR *Economic and Fiscal Outlook*

In these kinds of areas, a sectoral view of the low pay question is likely to be most helpful, particularly given the issue of compression at the bottom of the labour market discussed above. That is not to say that industries like agriculture can remain large employers while becoming high-paying. But this shouldn't blind us to the potential of a forward-looking mindset to promote better work.

Access to better-paying work outside the local authority is likely to be relevant too. Oldham and Wigan, where nearly one in four people are projected to be low paid in 2020, are both within commuting distance of Manchester and Salford. But as previous Resolution Foundation research has discussed, despite the higher pay available nearby and the improved travel infrastructure, most residents in Oldham and Wigan still work within their local authority.[11] For areas such as these, a better understanding of the barriers facing residents will be required.

In other areas, the scale of the low pay problem may not be as acute as it first seems. In West Somerset for instance, self-employment is much more common. This means that though low-paying employee roles obviously persist, they may represent a smaller overall percentage of those in employment in the area. This doesn't mean these areas can be dismissed however, and the quality of self-employed work in the area may also benefit from efforts to move away from low pay.

In others, low pay is a well-acknowledged problem but sits alongside myriad other symptoms of economic distress. Seaside towns – Blackpool (29 per cent low-paid in 2020) and Scarborough (28 per cent) – and former mining communities – Bolsover (35 per cent) and Newark and Sherwood (28 per cent) – are among the sorts of areas that have suffered from shifts in consumer trends and the global economy. For the geographically lucky among them, improved transport links to more economically vibrant urban centres – the difficulties raised in Oldham and Wigan notwithstanding – is one option. A solution for more isolated towns without an obvious candidate to restore decent-paying job is harder to find. But the difficulties faced by seaside towns is a topic that, at a minimum, the government has begun to consider and invest some money in.

Given the diverse drivers of low pay in this handful of examples, it is clear that a one-size-fits-all approach to tackling low pay is not appropriate. The Metro Mayoral elections in May 2017 opened the door to a stronger local economic leadership and the scope to respond to some of these challenges. Recognising the NLW as a policy requiring further action, and the full range of stakeholders that would benefit from a successful implementation will be key. These questions of policy responses and the local dimensions of low pay are explored further in the next Section.

[11] S Clarke, *New Order: Devolution and the future of living standards in Greater Manchester*, Resolution Foundation, November 2016

Section 3

Life on low pay

The statistics discussed in the previous Sections show the UK's low pay problem apparently lessening, but how does that tally with the experiences of low-paid employees? In this Section, we explore this question by discussing findings from focus groups held with 19 low earners in August 2017. The message coming through from the groups was that problems with low-paid work stretch beyond pounds and pence to the quality of the jobs, with a duty on government to improvement their work.

Though the NLW's effect is clear in the data, it had barely been noticed by the group members, including those paid at the wage floor. Yet plans for further increases in the minimum wage were undoubtedly popular, particularly with those working very long hours or struggling to make ends meet on short-hour contracts. But while important, pay was far from the only element of their working lives in need of improvement. Erratic shift schedules and firms operating with reduced staff numbers made balancing work and family life a challenge. Unsurprisingly, greater opportunities to progress out of these sorts of roles and low pay were desired by many, and the respondents felt change for the better was possible. It was agreed that government had a central role in improving low-paid work. But responsibility lay with employers too, with examples of firms offering regular shifts, training and development used to show that low-paying jobs don't have to be bad jobs.

When the National Minimum Wage (NMW) was first introduced in 1999, its impact was transformative. As Professor Sir George Bain, the first chair of the LPC reflected, jobs could no longer be advertised seeking security guards for £1 an hour, 100 hours a week with applicants needing to supply their own dog.[12] The most poorly paid work was made illegal, introducing a basic floor into the UK's labour market.

As the previous Sections have discussed, the NLW could have an equally large, though different, impact. Under the NLW, the aim of government's wage floor policy has shifted from ensuring that basic pay norms are implemented to narrowing the gap between the lowest earners and those in the middle. This reshaping of the labour market is something previous Resolution Foundation reports have discussed, primarily from the point of view of firms.[13] Interviewing employers on their views on the NLW and the actions they were considering shone a light on the responses that were available and what those responses might mean for low earners. In this report, with its focus on employees, we explore the experiences of the low paid themselves.

We held two focus groups held in August 2017 with 19 low-earners. The aim of these groups was to explore the working lives of the low paid and to discuss the difference the NLW has made so far. To best target that response, most of the group respondents were clustered at or just above the NLW at the time (£7.50) with the highest-paid among the respondents earning £8.50 per hour. They were a broadly representative of the low-paid population in terms of the mix of age, sex, ethnicity, family types, household incomes, working patterns and political preferences. The groups took place in two British cities, one in the North of England and one in the South (with the former having a markedly higher prevalence of low pay). While the views of these respondents should clearly not be taken as reflecting the experience of everyone in low pay, the groups nonetheless provide an important insight into what matters to some low earners.

[12] http://www.resolutionfoundation.org/media/blog/minimum-wage-everyone

[13] C D'Arcy, *Industrial strategies: Exploring responses to the National Living Wage in low-paying industries*, Low Pay Commission/Resolution Foundation, December 2017

Much more to low-paid jobs than low pay: hours, shift patterns and relationships matter too

While there is merit in efforts to improving the negative elements low-paid regardless of the circumstances of the employee, there is perhaps less concern about pay for low earners in higher-income households i.e. people with higher-earning partners or family members. But from the discussion in the groups, it was immediately apparent that for the majority (including those slightly further up the household income distribution), their earnings *were* seen as crucial. "To make money" or "to pay the bills" were the most common answer given to why they go to work. And when asked what came to mind when they think about their jobs, low pay was among the most commonly mentioned phrases.

Because of their low hourly rate, many respondents felt forced to work very long hours in order to earn a sufficient weekly income. For a car park attendant in his 40s, this was unavoidable in order to provide for his young family but limited the time he could spend with them:

> Today I was up for 5 [am] and I won't get home till about half past 8 [pm]. So I don't have much family time… It's hard motivating myself sometimes just to get up in the morning just to go to work but I have to because I have to pay the bills.

A similarly overworked security guard in a young, low-income family drew attention to how poor management can exacerbate matters through erratic and badly planned shifts:

> I work 60 hours a week. [I work] every day of the week. Days and nights. The manager's not really got a clue on how to set a rota so you could be doing a night shift, then a day off, then back on the day shift.

Highly variable shift patterns took a toll on the family life of other respondents too. For one woman with a young family, her role as a hotel receptionist made reaching an acceptable work-life balance challenging:

> I don't know from week to week what I'm doing until the rotas come out. And obviously family life's worked around work.

But for others, underemployment was a more pressing issue. A woman expressed her frustration at the need to take part-time jobs in order to get a foothold in a better-paid career and the difficulties that caused her, eventually having to settle for low-paid but full-time work:

> I went and got a degree and my fight, all the time, was they could offer me a 16 hour job… 'Can I have more hours?' To do that, I had to go and work at reception on a Sunday morning just to try and get 20 hours in a week. For me, it made managing my time very difficult. I had 16 hours that I was contracted to but I couldn't live from 16 hours a week. It got very tedious. I've not got a day off because I'm trying to make up my hours elsewhere to earn that money.

One woman who worked as a sales assistant in a clothing chain store was, overall, positive about her employer. But their inability to offer her as many hours as she wanted was a disappointment, particularly as she was 21 and paid less than the NLW:

> At the moment I think I'm on an eight-hour contract, which obviously isn't a lot. But I'm doing pretty much week in, week out, at least 25 hour weeks. Just because I'm asking for the hours. But say if two people go, they'll hire three more on eight-hour contracts. So then my hours will go down again and I'll just have to keep covering [other people to get enough hours].

Short-hour contracts such as this were raised as problematic alongside zero-hours contracts. The respondents in the Northern group were particularly concerned about zero-hours contracts. A man who worked in maintenance and strongly disliked his job was keen to leave but not optimistic about finding a better position due to the prevalence of zero-hours contracts:

> I think there's work out there but a lot of them are these zero-hour contracts and they're no good to nobody, are they? [An] employer might ring you up in the morning and say we don't need you tomorrow. What good's that to anybody? Especially if you've got kids and a family or a mortgage.

A hospital porter in his early 60s enjoyed his job despite it being low paid but was equally pessimistic about the options available to him in the area:

> If you said to me 'right, you're going to be finished at the end of this week. What are you gonna do?'... I've got three options... I could go back to a former employer, which I don't want to do, no chance. I could get an agency job. Or a zero-hours contract. That's the only options I can see. I can't ever see a point where I could apply for what I call a proper job, go for the interview and get it.

Despite these problems, most respondents had positive things to say about their jobs. While the stress caused by customers was frequently mentioned, many had built warm relationships with some regular clients. Friendships with colleagues were important too, with phrases like "family" being used to describe the strength of the bonds in some workplaces. The social aspect of work seemed especially important for single parents with young children, giving them badly needed "adult interaction". And many jobs came with perks. For those in restaurants and retail, getting free food or discounts on clothes were valued.

Many took satisfaction from having completed a task effectively or solved a problem for a customer. Being "the person to turn to" in a workplace was often a burden but a number of respondents expressed a sense of pride and satisfaction at being relied upon by others. A linked element was the chance to succeed at work and progress into better-paying work is something we return to later in this Section.

Changes in the workplace are viewed as being mainly for the worse

In order to understand whether the issues raised above are perceived as long-term – and perhaps inevitable – features of the lower end of the labour market or if these are more recent developments, we asked our respondents how work had changed in the past few years.

Given the dominance of pay in the discussion and the share of the group paid very close to the wage floor, it might be expected that the introduction of the NLW would have caught the attention of the respondents. Strikingly however, none of the respondents felt their wage growth had picked up in recent years. Awareness of the NLW was generally low, with one of the few respondents aware of the policy – the security guard in his 30s paid at the NLW – describing it as "ridiculous" and a "trick" because it wasn't a real living wage.

Although varying hours could explain some of this lack of impact (that is, any hourly gains might have been masked by reduced hours), many respondents were working full-time in the same role for a number of years. The interaction of higher wages with the tax and benefit system is likely to have been an important factor too, with gross wage increases not fully passing through to take-home pay. Low earners within the tax credit or Universal Credit regime can often face very high effective marginal tax rates, thereby limiting the gains felt.

Aside from the financial impact on themselves, the discussion touched upon changes made by employers that have been touted as possible responses to the NLW. Of course, many such changes are taking place in industries relatively unaffected by the rising wage floor. A number of respondents felt their workload had increased in recent years, without any accompanying pay rise (notwithstanding the NLW). In the workplace of one retail employee, the staff had been reduced from 32 to 18, only three of whom were full-time with the rest on short-hour contracts. This had led to a noticeable increase in her workload. The car park attendant summed up similar changes as “more paperwork, less staff, more car parks. When I started we had five car parks, now we have seven. We used to have four on a shift, now we have two. They left and they never replaced them.” He explained that due to the lack of alternative staff, when someone calls in sick agency staff are required.

Some reported a cut back in premium payments although for many, there were few benefits to cut back on in the first place. But in one workplace which had tried to move away from overtime payments, the process had not been smooth:

> We used to get time and a half. And then they went to time off in lieu. And then everybody stopped doing overtime because we could never get time to get the time back. So now they’ve started to pay time and a half again for overtime but they tend not to give us overtime because they don’t want to pay it. It’s bizarre. Like you say, if they can find somebody else to come in and do it from elsewhere, they’d rather do that than pay us the time and a half.

Increased technology in the workplace has been a hot topic, with more generalised concerns that a high minimum wage will speed up the replacement of humans by machines. There remains little evidence to suggest that mass technological unemployment is on the horizon.[14] In fact, greater use of technology would be welcome from a productivity perspective. But a significantly higher minimum wage does, all else being equal, make automation more attractive to employers.

Two receptionists employed in different hotels provided an interesting snapshot of the kinds of technology being utilised. In some cases, this is explicitly labour-replacing, or at a minimum freeing up staff to do other tasks:

> The guests can now open their doors with their smartphone. So they can just, like, bypass the front desk and check-in completely. So sometimes in reception I’m stood twiddling my thumbs, nobody wants to speak to me!

In the case of the other receptionist however, additional technology had been introduced with the aim of helping her do more:

> I have to use two screens at my work. There’s so much to do. One screen is not enough.

Progression is popular but uncommon

In the views of our groups then, low-paid jobs are not all bad. But there remains much that could be improved upon, and a feeling that conditions have worsened slightly in recent years. Whether or not low pay is a springboard to higher earnings and better work is therefore a crucial part of the debate.

Progression – broadly defined as the opportunity to develop, train and move into better roles – emerged as an issue at various stages throughout the groups. It was certainly sought after. When discussing what an ideal job would be like, the chance to learn new skills and progress over time was widely cited as desirable. But even these positive case studies were often double-edged. The young sales assistant who struggled to get enough hours each week also respected the company for giving her a chance with no retail experience. This was in contrast to her experience applying for roles in a cocktail bar and a café where she was told they couldn’t hire her for a low-paid entry-level position because of her lack of mixologist or barista experience. The longer she tried with the company, the better her chances to progress would be, she felt, as she knew people who had moved from sales assistant to supervisory roles.

[14] Though see for instance Lordan, *forthcoming* on the interaction between the UK minimum wage and technology.

This mixed view was share by another respondent, whose partner worked for a large supermarket chain. While the pay was good and he had progressed up through the ranks over a decade in the company, he was now stuck because he didn't have a degree. Despite his performance, his manager wouldn't promote him or discuss how he could gain the necessary skills to make the move up.

Despite these limitations, respondents who had not previously heard of the career routes available in these firms were impressed. When asked why some firms chose to make progression a central part of their offer to employees while for others it was non-existent, the respondents had no single explanation. It was agreed that large and expanding companies were best placed to offer progression because "they know they'll always need people". But some argued for the business case, for instance viewing it as a way of keeping employees happy, limiting turnover and thereby reducing recruitment and induction training costs.

More negatively, progression was raised as having become more difficult in recent years. There were a variety of reasons for this but one that received wide agreement was the sense that firms were less likely to employ someone with limited experience than was the case in the past. A man in his 40s compared the change over time:

> Before, you could go for a job, you could go for interview even though you weren't trained for that job. And you could go there and they'd actually train you. Now, they don't want to train people. They just want you to have the skills already. They don't want to train you up… So it's a bit pointless moving from one field to the other because if you haven't got the skills, they're not even going to look at your CV… Before, they would've said 'we'll just bring them all in and interview them'.

This ran alongside a view that employers had become less willing to train existing staff and would rather hire a new person rather than promote from within. This echoes the trend evident in measures of training intensity – the share of workers receiving 'off the job' training in the past four weeks – which has steadily declined over the past 15 years. And a barrier to progression raised in previous Resolution Foundation research emerged again: the often small pay differential between entry-level and supervisory positions, despite the latter demanding more effort and stress.[15]

In order to flush out the key issues and better understand progression from low earners points of view, the respondents of one group were asked to give advice to two different hypothetical people seeking to progress into higher paid. The first was 'Joe', a 21 year old man with no partner or dependents who didn't attend university and works in a low-paid job in retail.

The instant reaction of one member of the group – a mother – was to shout "don't have kids!" She argued that being a parent means you are less flexible and it's harder to work long hours (because childcare is expensive), both of which are often needed to find higher-paying work. But some people – those without children – felt these advantages were cancelled out by the more preferable treatment parents receive. Specific examples were given of managers allowing people with children to leave at short notice while the same flexibility would not be extended to those without children. Overall, respondents felt that if Joe wanted to progress, he was better off focusing on it while still young and childless, rather than "just enjoying himself for a few years".

The potential role education could play in progression was hotly debated. One younger woman currently working in retail was keen to become a midwife; for her, more education was the logical route. Education was also discussed as a signal to employers that a person has commitment and is "a hard worker".

But for others, the expense involved in retraining was off-putting. A number of respondents had considered undertaking training but had been unable to find funding to make it a genuinely attractive prospect. The need to go (deeper) into debt without the guarantee of a significantly

[15] C D'Arcy and A Hurrell, *Escape Plan: Understanding who progresses from low pay and who gets stuck*, Social Mobility Commission/Resolution Foundation, November 2014

better-paying job at the end was daunting for some. Others argued from personal experience that being deemed overqualified can become a problem, or that experience or personal skills can be just as or more important.

When asked if it would be sensible for 'Joe' to approach his manager and ask for a raise, the primary response was laughter. Many respondents felt there was a high risk of getting sacked or at least being treated badly as a result. A number of people said they lacked power and that employees don't know their rights, which holds them back.

To help us explore the role played by sex and parenthood, the group then discussed how their advice would vary if the person seeking progression was 'Jane', a woman in her late 30s, living with her partner and two primary-school aged children and working in a low-paid role in a hotel.

This led to an interesting discussion of which sectors were easiest to progress in for people with children. One respondent's relative had worked in the NHS, which was seen as a place with family-friendly policies and plenty of opportunities to move up. Some people felt that female-dominated sectors were more likely to be flexible and acknowledge the needs of parents. Such an environment was particularly appealing to one father working in maintenance. He had asked his manager if his hours could be re-arranged around his childcare responsibilities. His request had been refused, primarily in his opinion because it was an almost entirely male workplace with little precedent for his request.

When told that Jane was receiving tax credits, the views of the group shifted somewhat. Respondents discussed whether or not it was worth trying to progress if there was a risk of losing tax credits or housing benefit which was viewed as a serious threat. Some felt that people receiving in-work support would need to get a significant pay increase in order to offset this potential loss, so incremental progression was less appealing.

Improving low-paid work and progression

Having established that low-paid work had much room for improvement, particularly in terms of progression, the group concluded by discussing what could be done and whose responsibility it was to do it. When asked who should improve work, there was agreement that government and employers should each contribute. Ideas suggested by respondents included raising the minimum wage (again, with little awareness of the increases already planned through to 2020), banning zero-hours contracts, withdrawing in-work benefits more slowly as people progress, reducing tax on the lowest earners and offering greater support with childcare costs.

The respondents were however pessimistic about the likelihood of meaningful change coming from politicians. Some felt politicians were completely out of touch and had little idea of the reality of low-paid employment. Others argued that politicians knew but didn't care. This led to the suspicion that even if parties announced encouraging policies, they shouldn't be believed. When asked if any attractive policies on work had been discussed during the 2017 General Election campaign, most respondents couldn't think of any. Some of the more politically-engaged members mentioned Labour's £10 minimum wage proposal, with some supporters and others arguing it was unaffordably high and smaller increases favoured.

The perception of limits to a minimum wage policy encapsulated a sense in the groups that government could drive progress in some elements of work but that employers had to be partners in this change. It was acknowledged that employers face challenges – taxes and uncertainty around Brexit prominent among them – but there was agreement they could do more to improve the working lives of low earners. Raising wages, providing more training and support and offering more encouragement and appreciation were all mentioned. The fact that some firms already chose to do this showed that it was possible.

The importance of quality management was repeatedly highlighted. When asked if management skills were something that could be learned or if some people were simply better suited to it, most respondents felt training would make a meaningful difference. Complaints about management stretched from their immediate supervisors up to senior management, who were seen as out of touch. This was even extended to those who had worked their way up from the shop floor but hadn't "looked back" in a while to remember what low-paid life was like.

When unions were suggested as a possible agent of change, views were mixed. Most respondents had no first-hand experience of unions and knew little about what they do. Only two respondents were currently in a union and they were reluctant to raise issues with their union representatives for fear of being viewed as "difficult". More respondents had been in unions in the past in other jobs. Some of these had seen little evidence of their impact, but one woman recounted the experience of a family member who was being mistreated by their employer. Their union intervened and resolved the problem. For most of the respondents, unions were deemed irrelevant.

We have seen the success of the NLW in lowering the number of employees in low pay, with more gains expected to be made in the coming years. But we have also head that low-paid workers themselves are frustrated by issues beyond their hourly rate, including shift patterns, underemployment and a lack of progression. This implies the need for action beyond the NLW, the options for which we discuss in the next Section.

Section 4

Conclusion

As the previous Sections have made plain, 2016 will be looked back on as a pivotal year for low pay in the UK. Our analysis has illustrated the impressive impact the NLW has already had, and the much larger reductions in low pay that should lie ahead. The success of the NLW to date reminds us that well-targeted government policies can bring positive change to the labour market.

But even within these encouraging statistics, challenges remain. The UK's low pay problem hasn't been solved by any means. First, even in 2020 the proportion of employees that are low paid appears likely to be higher than the best performers within the OECD. And the number of people paid less than the Living Wage continued to rise in 2016; given the reappearance of the pay squeeze, this unfortunate trend may well continue in 2017. This is a reminder that though useful, the two-thirds of median pay definition of low pay is ultimately an arbitrary one, with price rises putting pressure on many low earners. Ensuring that genuine progression out of low pay becomes a reality, rather than simply moving people 5p above the low pay threshold, will be vital.

The UK's starting point in this endeavour however is a decent one. Our focus groups dismissed the idea that all low-paying jobs are soul-destroying; lots of people enjoyed and took value from their work. But our respondents had complaints over issues that many in better-paying work would take for granted. Despite a tighter labour market, underemployment bore down on the incomes of some, while unpredictable shift patterns put pressure on family life.

Worryingly, in the opinion of our respondents things appear to have worsened of late. Zero- and short-hours contracts were particularly feared, with a common complaint that the burden placed on low-paid staff has been large but without an accompanying pay increase. There was little in the discussions to suggest that employers had taken these actions directly in response to the NLW; indeed, in many cases the changes dated back to the early post-crisis environment. But a decade on from the collapse of Northern Rock, the world of work described by the focus groups is not what a tight labour market looks like.

The combination of our analysis of the survey data and the views of the respondents in our groups make a strong case for action. And the view held by most of our respondents – that this should be a joint enterprise between government and business – is hard to disagree with. While the NLW had not made a tangible difference to the lives of our respondents so far, it is likely to have had a much larger effect by 2020. At that point, straightforward approaches allowing policymakers to raise wages are likely to be exhausted with new tools needed.

The fact that low-paid jobs are often low-quality jobs in dimensions beyond pay therefore comes to the fore. That makes promoting progression out of low pay all the more urgent. The examples of firms already pro-active in this space showed gains can be made, but more creative thinking will be required. A response will be needed from government too however. Previous Resolution Foundation reports[16] have recommended exploiting the introduction of Universal Credit to help maximise progression opportunities. Gains could be made by raising the taper, an issue raised – if not quite in those terms – by our groups.

[16] D Finch, "Moving on up: Enabling earnings progression in the UK labour market" in ed. S Clarke, *Work in Brexit Britain: Reshaping the Nation's Labour Market*, Resolution Foundation, July 2017

But given the scale of the challenge, going beyond this and trialling more practical support to help people progress, including job-seeking support, skills matching and job brokerage are avenues worth exploring. The responsibility for such initiatives should not sit solely with central government. The new Metro Mayors and other senior figures in LEPs and local authorities should be well-positioned to provide ideas, funding and economic leadership in response to the challenges of low pay and progression.

On broader elements of job quality, we await the government's response to the Taylor Review – expected later in 2017 – which discusses many of the concerns raised in this report. While there was support for an outright ban on zero-hours contracts among our groups, guaranteeing those on such contracts working regular hours the right to a fixed-term contract after three months would be a welcome first step, and further than the 'right to request' such terms as recommended by Matthew Taylor.

The concept raised in the Taylor Review of a premium for non-guaranteed hours is another that should be explored further, with forthcoming Resolution Foundation analysis digging into this question. If well-designed, this has the potential to incentivise businesses to move away from the zero- and short-hours contracts which generated so much ire among our groups. And given low-quality management is repeatedly raised as a drag on productivity growth[17] – an absolute priority for the government – action here would be beneficial for everyone, not just the low paid.

But beyond productivity growth, the issue most occupying the minds of policymakers is Brexit. Last year's *Low Pay Britain* and a recent Resolution Foundation book on Brexit[18] explored the potential impact of leaving the EU on the lower end of the labour market. While radical change is unlikely to happen overnight, shifts after Brexit could have major consequences on low earners and their employers. This makes an effective response to the challenges raised here all the more key. While the terms of the deal reached and the new migration regime agreed upon will of course be crucial, there is still much that firms should be thinking about and acting on today, before those details are finalised. In some of the sectors most reliant on EU labour, including agriculture and hospitality, this process has clearly already begun. Efforts to attract more British workers into these sectors is likely to go hand in hand with making them better places to work. Encouraging firms to look again at their business models and explore whether there are better, more productive options available would be welcome.

In summary, 2016 proves that the labour market can improve for the lowest earners. The challenge as the NLW goes higher will be delivering similar improvements in progression and job quality.

[17] See for example: S Bender et al, "Management Practices, Workforce Selection and Productivity", CEP Discussion Paper No 1416, March 2016

[18] S Clarke, *Work in Brexit Britain: Reshaping the Nation's Labour Market*, Resolution Foundation, July 2017

Section 5

Low pay in depth

This Section provides more detailed statistics on who is low paid and how that has changed over time.

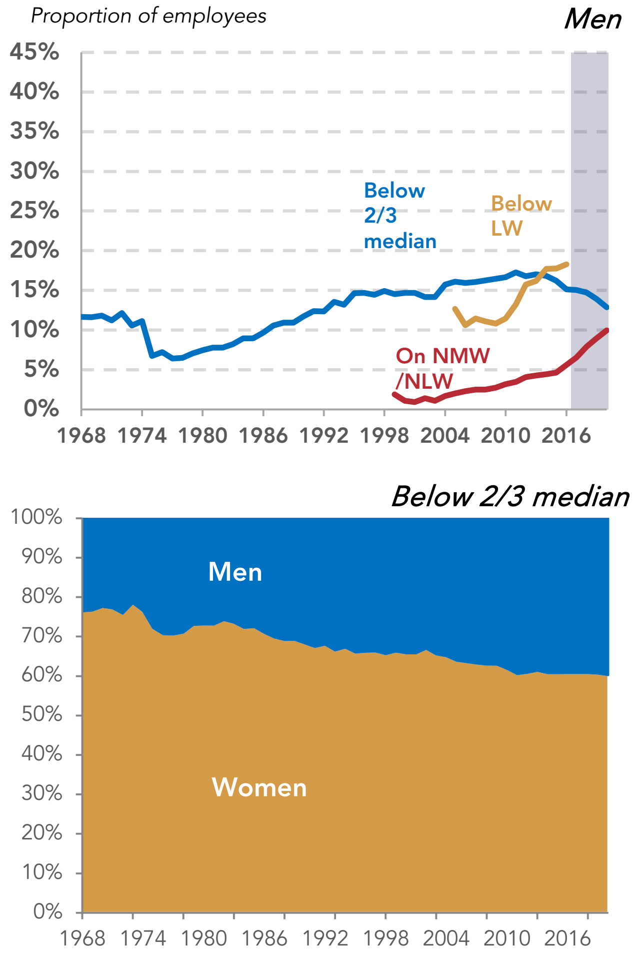
Table 2: Low pay in April 2016

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% in group below	% of all below threshold	Number (000s)	% in group below	% of all below	Number (000s)	% in group below threshold	% of all below
All employees	5,115	19%	100%	1,945	7%	100%	6,160	23%	100%
Sex									
Women	3,105	23%	61%	1,200	9%	62%	3,735	28%	61%
Men	2,010	15%	39%	745	6%	38%	2,425	18%	39%
Age group									
16-20	1,040	75%	20%	210	15%	11%	1,110	81%	18%
21-25	725	37%	14%	170	9%	9%	860	44%	14%
26-30	655	18%	13%	310	8%	16%	820	22%	13%
31-35	425	14%	8%	205	7%	11%	525	17%	9%
36-40	350	12%	7%	170	6%	9%	445	15%	7%
41-45	410	13%	8%	195	6%	10%	515	16%	8%
46-50	450	13%	9%	195	6%	10%	565	17%	9%
51-55	410	13%	8%	185	6%	10%	510	17%	8%
56-60	335	15%	7%	150	7%	8%	415	18%	7%
61-65	190	17%	4%	90	8%	5%	235	21%	4%
66+	125	24%	2%	65	12%	3%	155	30%	3%
Region									
East Midlands	455	24%	9%	180	9%	9%	545	29%	9%
West Midlands	540	23%	11%	215	9%	11%	635	27%	10%
Wales	255	22%	5%	100	9%	5%	300	26%	5%
Yorkshire & the Humber	520	24%	10%	205	9%	11%	610	28%	10%
North West	645	23%	13%	255	9%	13%	765	27%	12%
North East	235	19%	5%	100	10%	5%	275	27%	4%
South West	490	21%	10%	170	7%	9%	590	26%	10%
East	515	21%	10%	185	8%	10%	630	25%	10%
Scotland	425	18%	8%	165	7%	8%	510	21%	8%
South East	610	16%	12%	195	5%	10%	755	20%	12%
London	420	10%	8%	180	4%	9%	540	13%	9%
City region									
Sheffield	155	24%	3%	60	9%	3%	180	28%	3%
Nottingham	100	23%	2%	35	8%	2%	120	28%	2%
Liverpool	130	23%	3%	55	9%	3%	150	26%	2%
Newcastle	175	23%	3%	75	10%	4%	205	27%	3%
Tees Valley	60	23%	1%	25	10%	1%	70	27%	1%
Birmingham	250	22%	5%	105	9%	5%	290	26%	5%
Manchester	235	21%	5%	95	8%	5%	280	26%	5%
Leeds	220	21%	4%	85	8%	4%	260	25%	4%
Cardiff	115	20%	2%	45	8%	2%	135	24%	2%
Bristol	105	18%	2%	35	7%	2%	120	22%	2%
Glasgow	135	17%	3%	55	7%	3%	160	20%	3%
London	420	10%	8%	180	4%	9%	540	13%	9%
Occupation									
Elementary	1,675	55%	33%	720	24%	37%	1,910	62%	31%
Sales & customer service	1,160	50%	23%	385	17%	20%	1,350	58%	22%
Personal services	860	33%	17%	295	11%	15%	1,080	41%	18%
Process & machinery ops.	345	22%	7%	145	9%	7%	430	27%	7%
Skilled trades	355	17%	7%	150	7%	8%	435	21%	7%
Admin & secretarial	410	13%	8%	145	5%	7%	545	18%	9%
Managers & senior officials	105	4%	2%	40	1%	2%	140	5%	2%
Associate prof. & technical	140	4%	3%	45	1%	2%	185	5%	3%
Professional	55	1%	1%	20	0%	1%	80	1%	1%
Hours worked									
Part time	2,875	38%	56%	1,150	15%	59%	3,335	44%	54%
Full time	2,240	12%	44%	795	4%	41%	2,825	15%	46%
Hours worked and sex									
Part-time women	2,040	36%	40%	820	15%	42%	2,400	43%	39%
Part-time men	835	45%	16%	330	18%	17%	940	50%	15%
Full-time women	1,070	14%	21%	385	5%	20%	1,340	18%	22%
Full-time men	1,170	10%	23%	415	4%	21%	1,485	13%	24%

	Below 2/3 median hourly pay			Near or below NLW			Below Living Wage		
	Number (000s)	% in group below	% of all below threshold	Number (000s)	% in group below	% of all below	Number (000s)	% in group below threshold	% of all below
Contract type									
Temporary/casual	755	33%	15%	310	13%	16%	870	38%	14%
Permanent	4,360	18%	85%	1,635	7%	84%	5,290	22%	86%
Firm structure									
Sole proprietors	215	49%	4%	125	28%	6%	245	56%	4%
Partnerships	200	34%	4%	90	15%	5%	235	40%	4%
Private companies	4,015	24%	78%	1,545	9%	79%	4,725	28%	77%
Non-profit bodies and mutuals	305	14%	6%	100	4%	5%	390	17%	6%
Local authorities	245	9%	5%	65	2%	3%	340	12%	6%
Central government	135	4%	3%	20	1%	1%	225	7%	4%
Pub. corps & nationalised ind's	5	9%	0%	:	:	:	5	3%	0%
Broad sector									
Private sector	4,425	25%	87%	1,755	10%	90%	5,200	24%	84%
Third sector	305	14%	6%	100	4%	5%	390	17%	6%
Public sector	385	6%	8%	85	1%	4%	565	20%	9%
Firm size									
XS (0-9 employees)	655	32%	13%	355	17%	18%	755	36%	12%
S (10-49 employees)	910	25%	18%	405	11%	21%	1,080	29%	18%
M (50-249 employees)	690	20%	13%	275	8%	14%	830	24%	13%
L (250-4,999 employees)	1,110	18%	22%	420	7%	22%	1,315	21%	21%
XL (5,000+ employees)	1,365	28%	27%	405	8%	21%	1,610	33%	26%
Industry									
Hotels & restaurants	920	61%	18%	400	26%	21%	1,010	67%	16%
Wholesale & retail	1,435	36%	28%	470	12%	24%	1,690	43%	27%
Admin & support services	565	31%	11%	290	16%	15%	655	36%	11%
Agriculture	40	30%	1%	15	12%	1%	50	37%	1%
Arts & recreation	170	33%	3%	65	13%	3%	195	38%	3%
Other service activities	130	27%	3%	70	15%	4%	150	32%	2%
Health & social work	665	17%	13%	230	6%	12%	850	21%	14%
Manufacturing	335	13%	7%	120	5%	6%	415	17%	7%
Real estate	40	10%	1%	15	4%	1%	50	13%	1%
Education	390	10%	8%	105	3%	5%	530	14%	9%
Construction	100	10%	2%	40	4%	2%	120	13%	2%
Water supply & waste	15	9%	0%	5	4%	0%	20	12%	0%
Prof. & technical	125	7%	2%	50	3%	3%	160	9%	3%
Transport & storage	95	8%	2%	35	3%	2%	130	11%	2%
Info. & comms.	45	4%	1%	15	2%	1%	60	6%	1%
Finance	25	3%	0%	10	1%	1%	35	4%	1%
Public admin	25	2%	0%	10	1%	1%	35	3%	1%

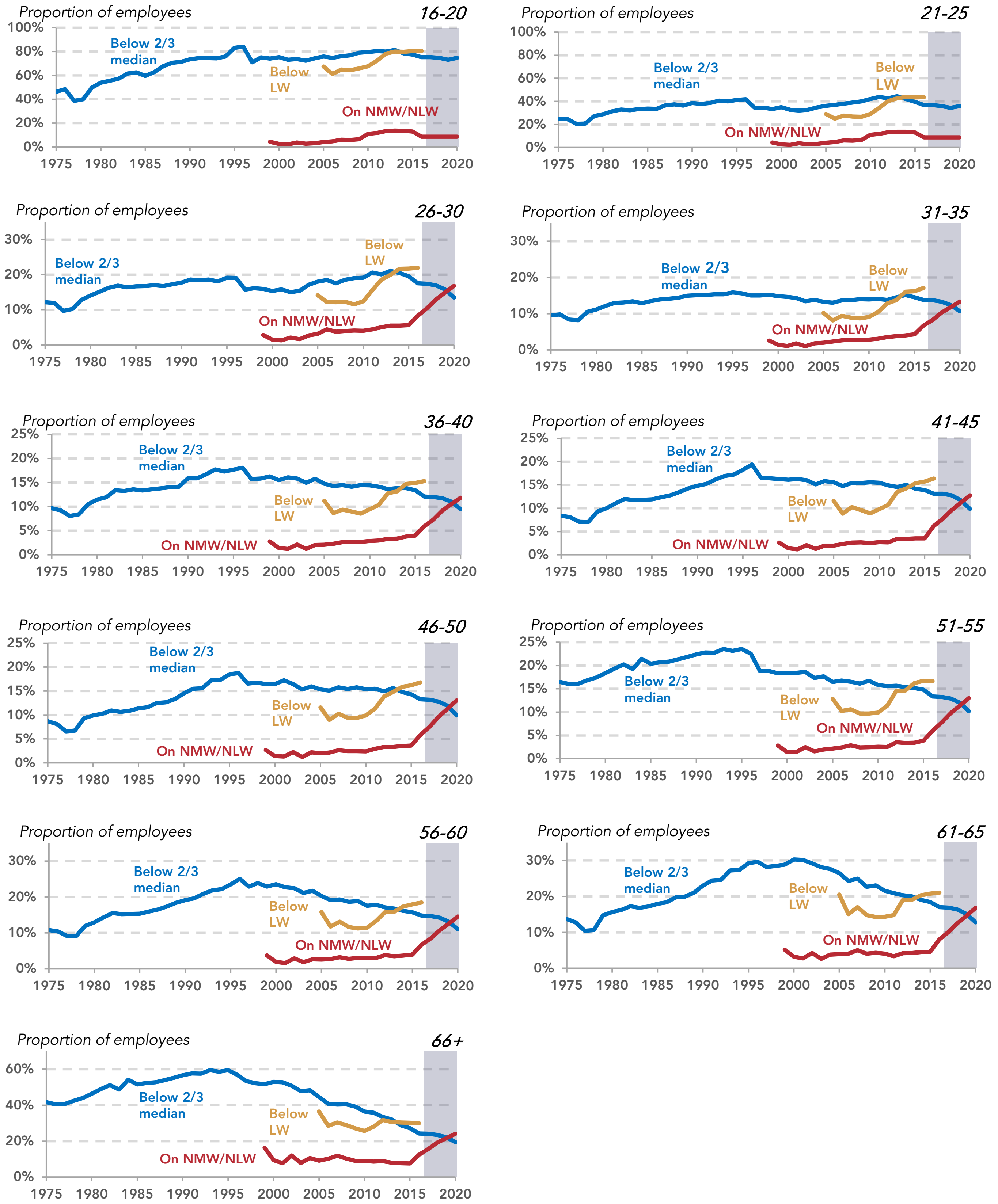
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Figure 13: Proportion of employees below selected low pay thresholds & distribution of low by sex: GB, 1968-2020



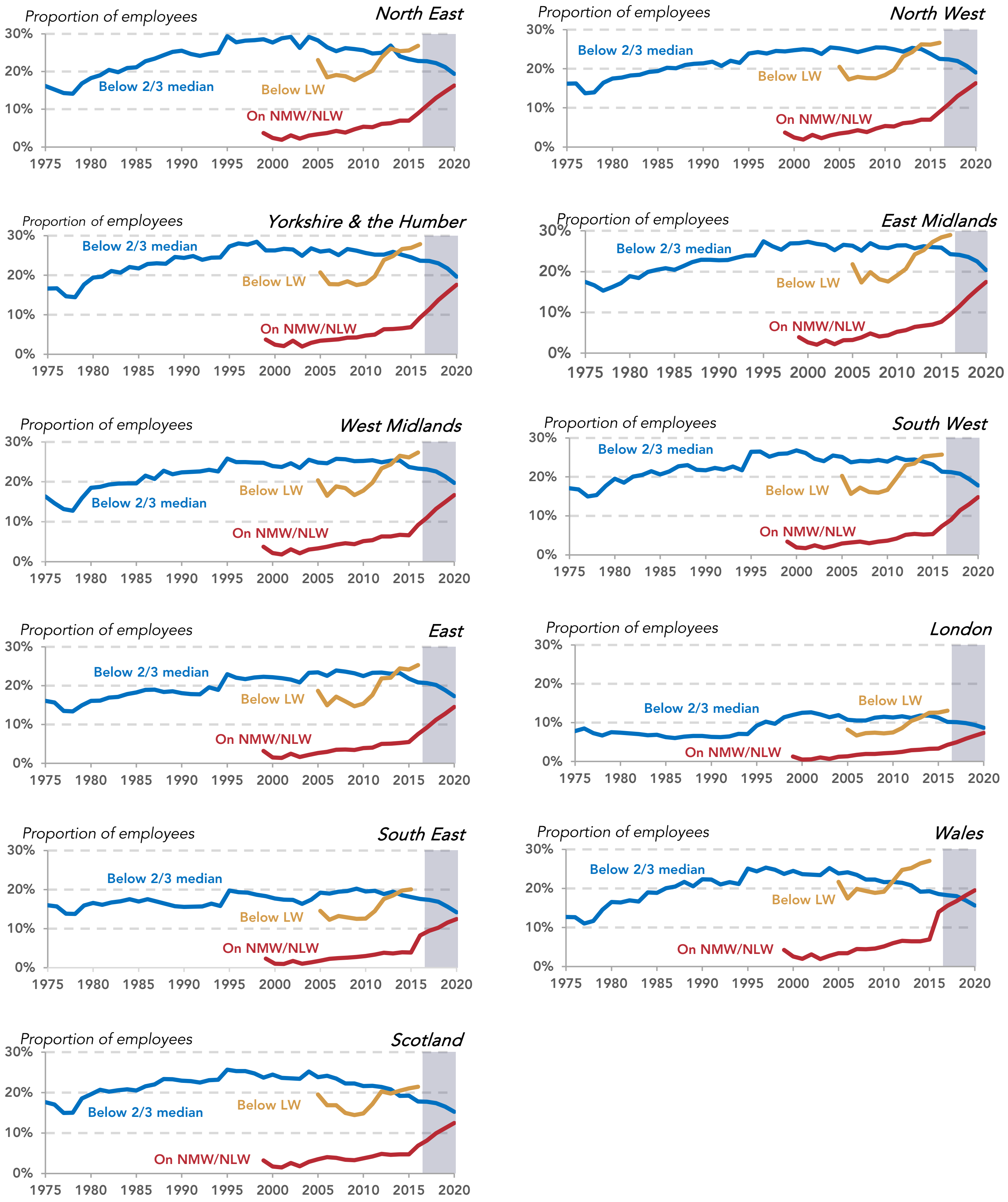
Source: RF analysis of DWP, *Family Expenditure Survey (1968-1981)*; ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 14: Proportion of employees below selected low pay thresholds by age: 1975-2020



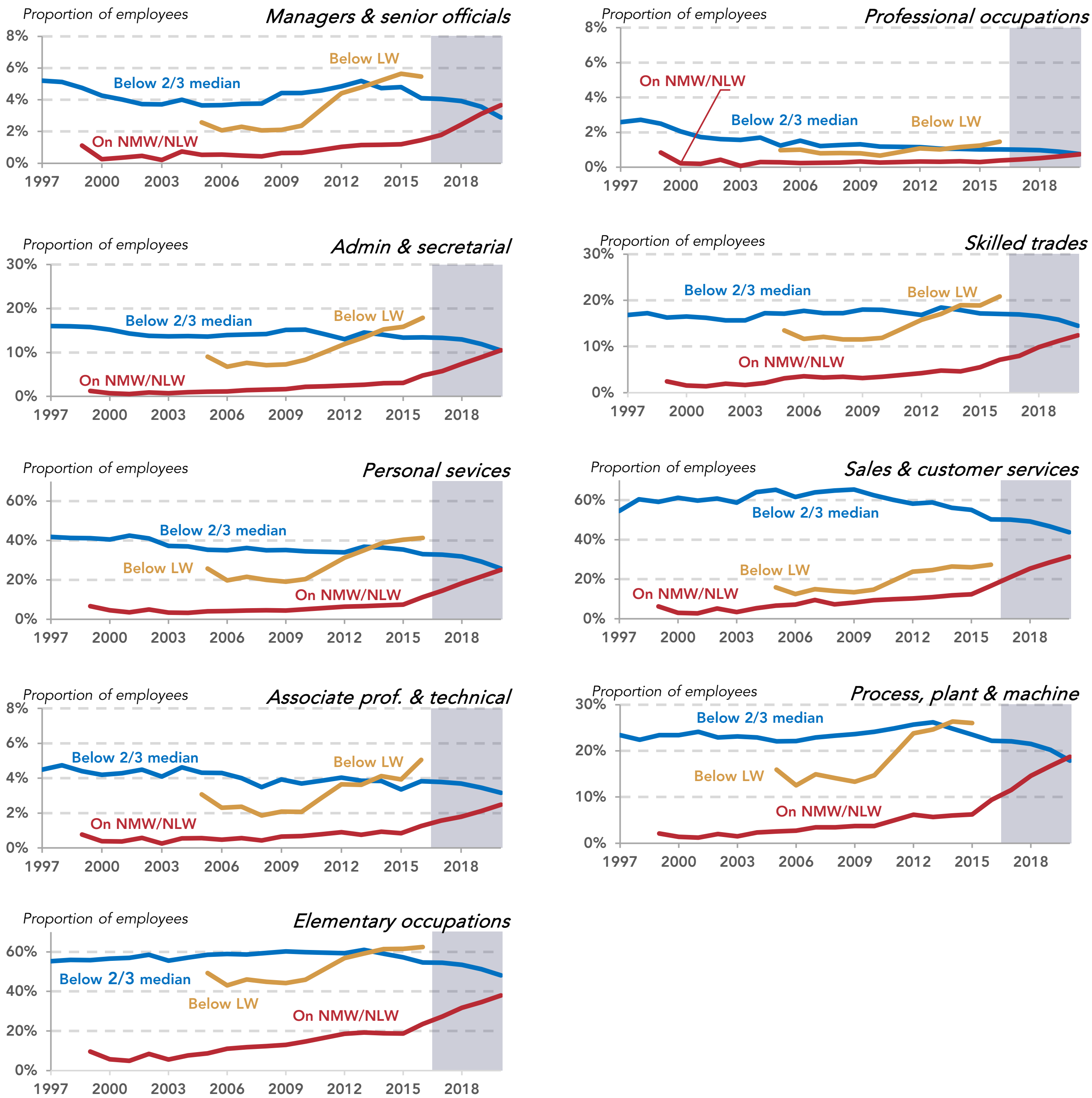
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 15: Proportion of employees below selected low pay thresholds by region: 1975-2020



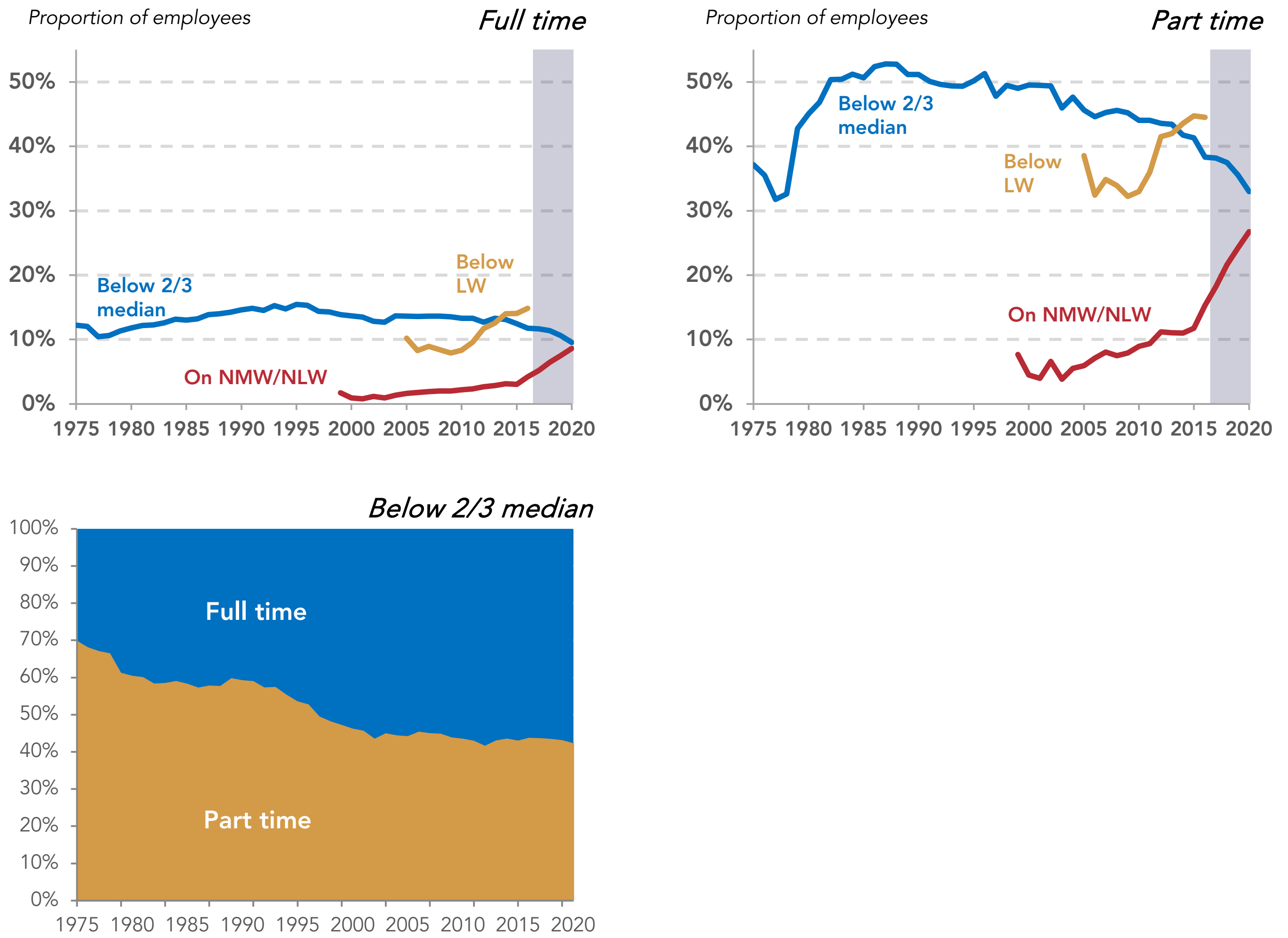
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 16: Proportion of employees below selected low pay thresholds by occupation: 1997-2020



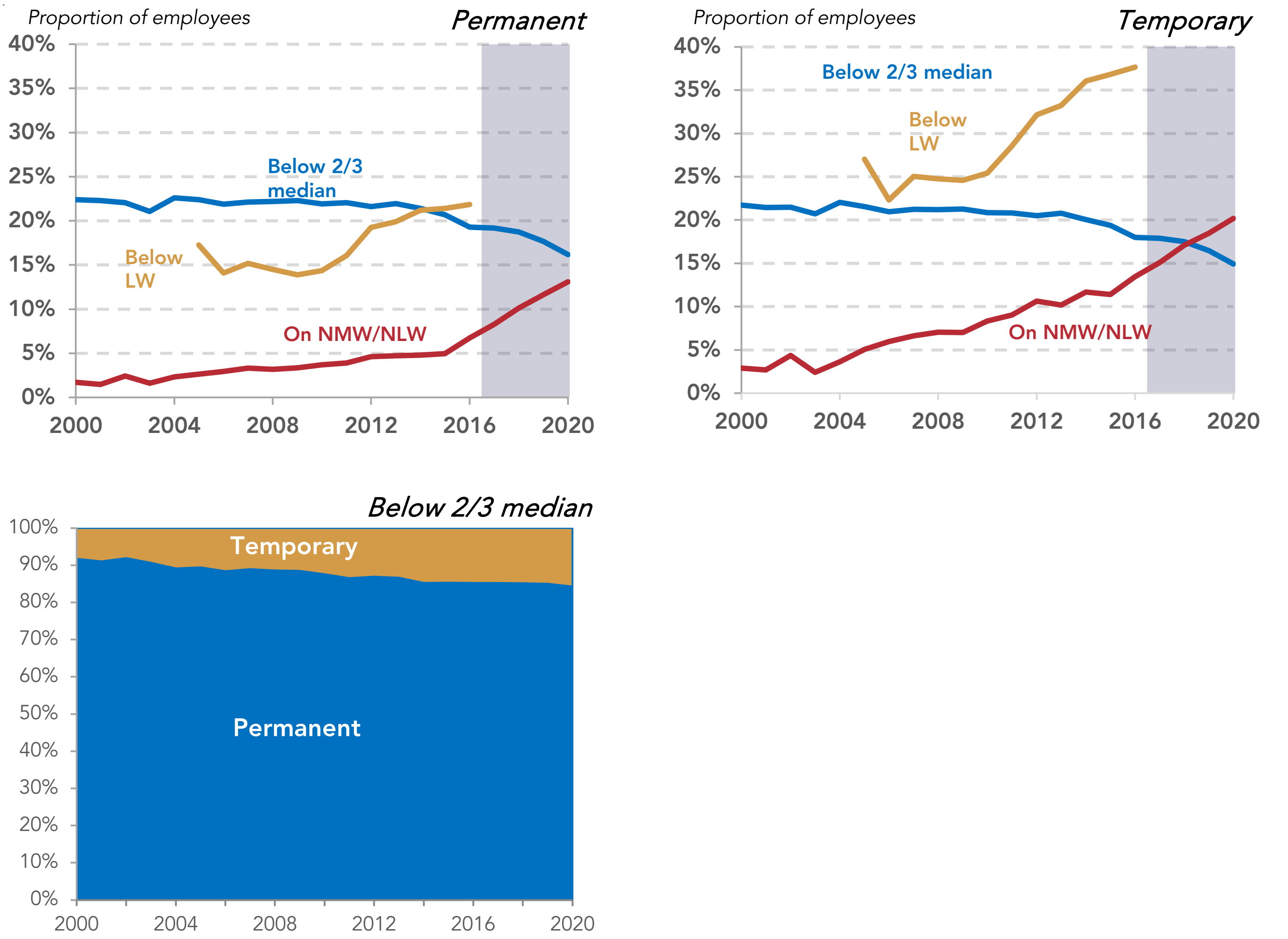
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2016*

Figure 17: Proportion of employees below selected low pay thresholds & distribution of low pay by hours worked: 1975-2020



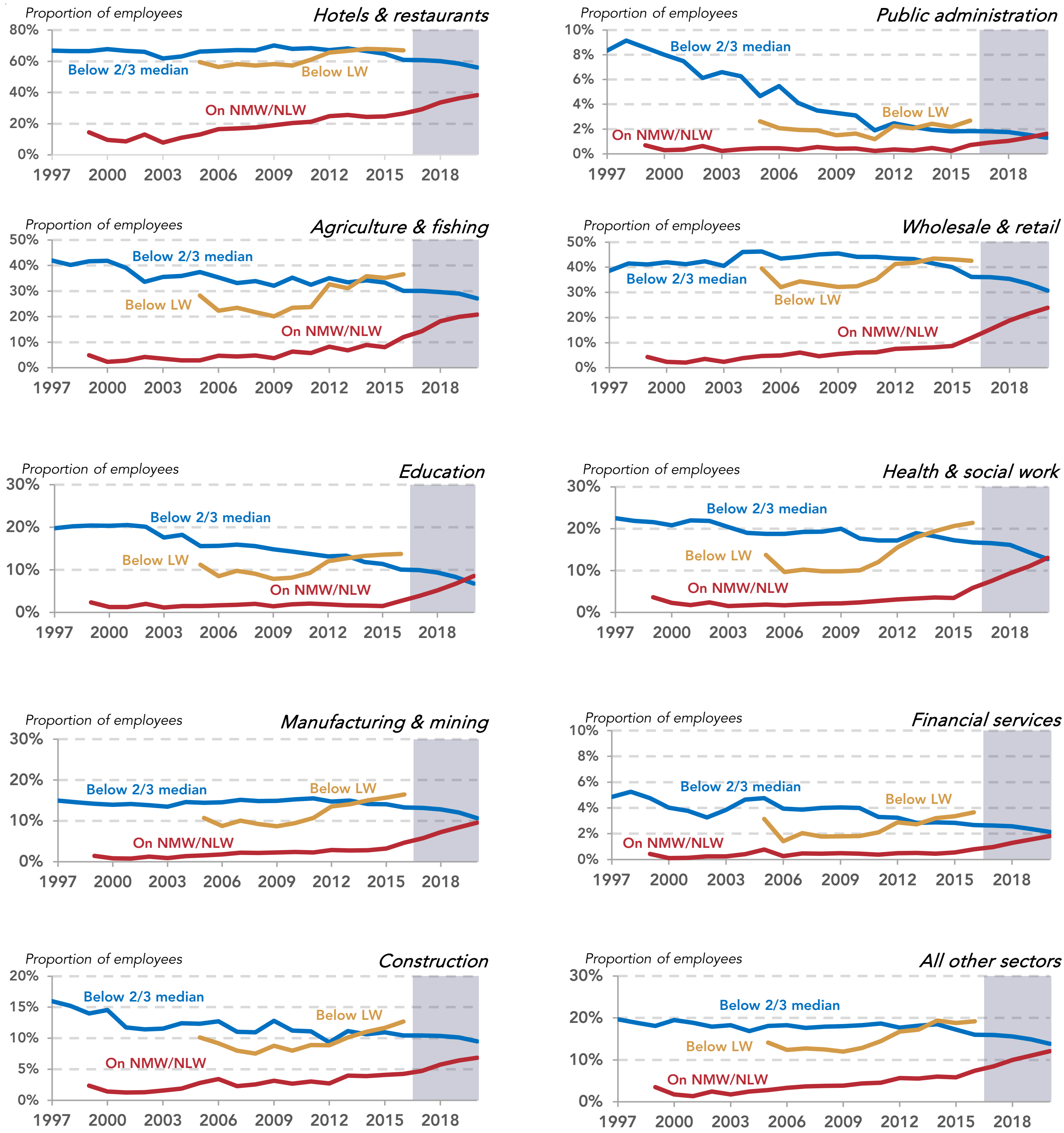
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 18: Proportion of employees below selected low pay thresholds & distribution of low pay by work status: 2000-2020



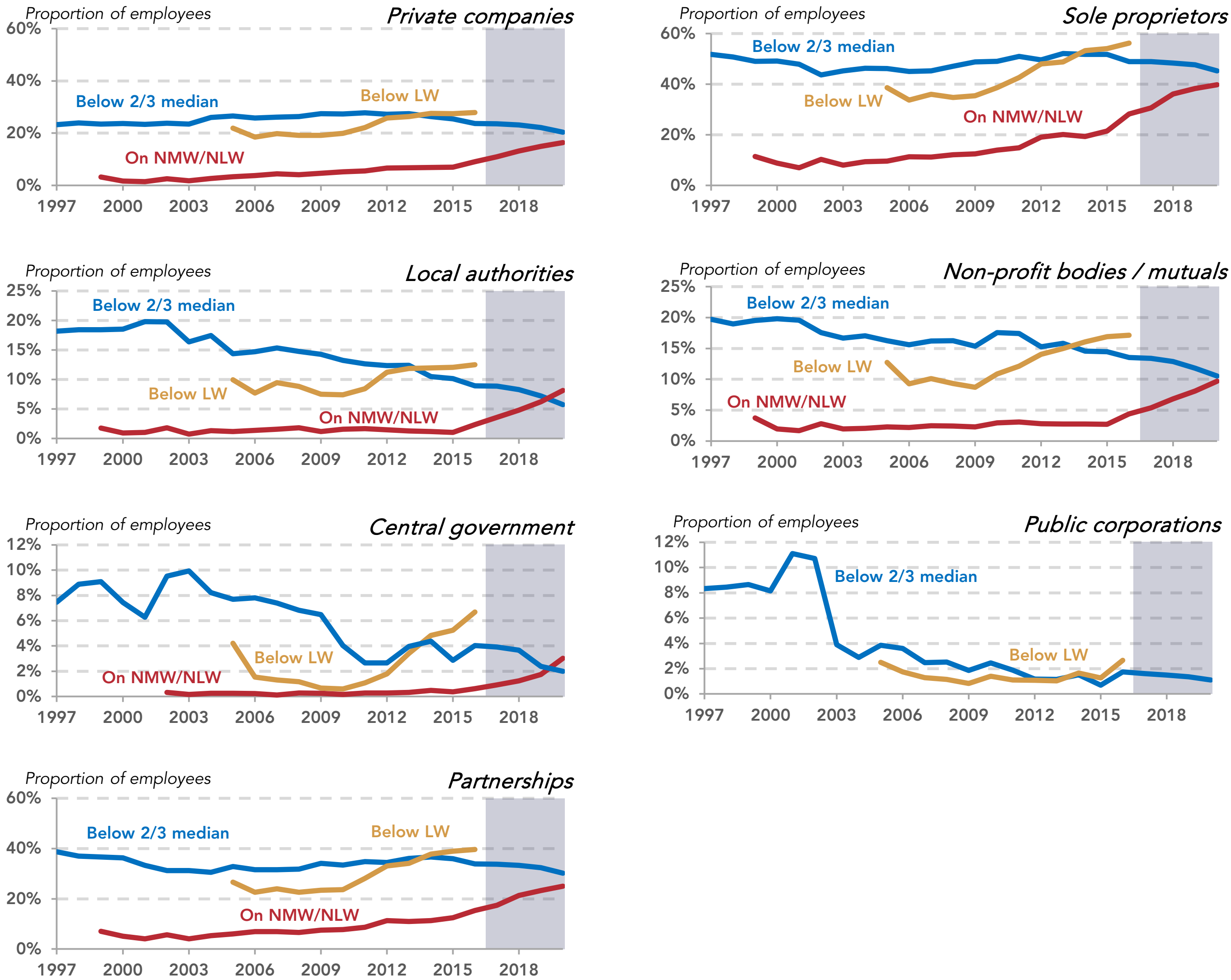
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 19: Proportion of employees below selected low pay thresholds by industrial sector: 1997-2020



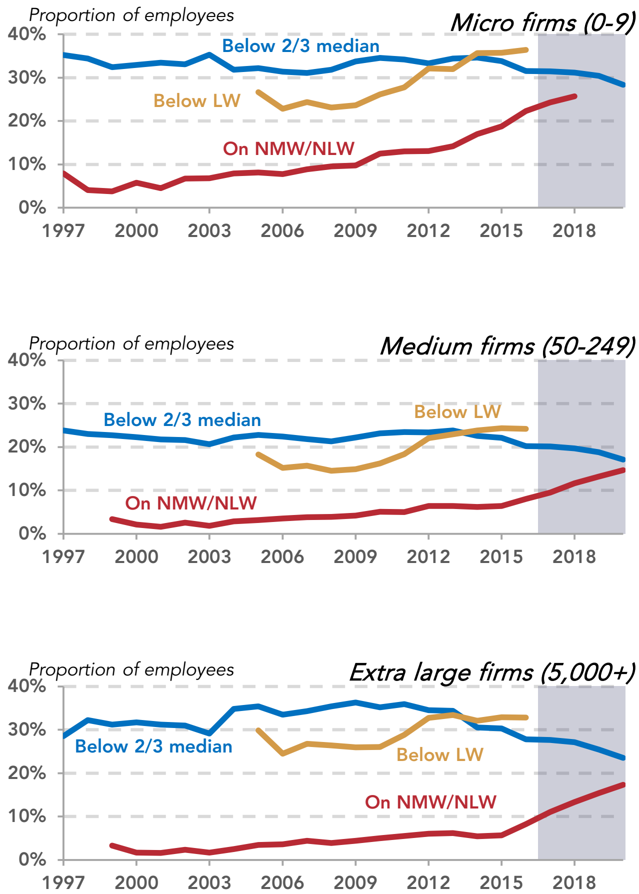
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 20: Proportion of employees below selected low pay thresholds by firm structure: 1997-2020



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2016)*

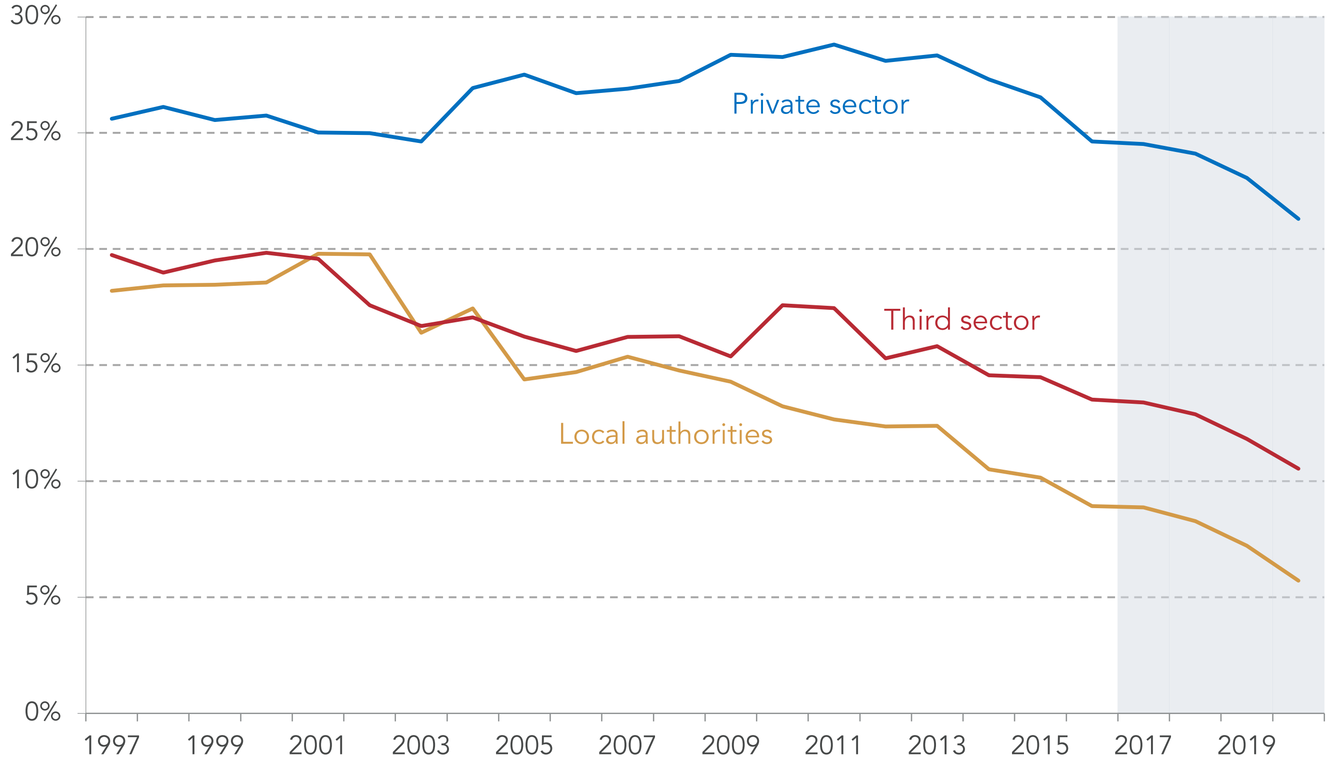
Figure 21: Proportion of employees below selected low pay thresholds by firm size: 1997-2020



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Figure 22: Proportion of employees in low pay by broad sector, 1997-2020

Proportion of employees below 2/3 all-employee median pay



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2016)*

Annex 1

In this Annex we describe the data sources and methods used throughout this report.

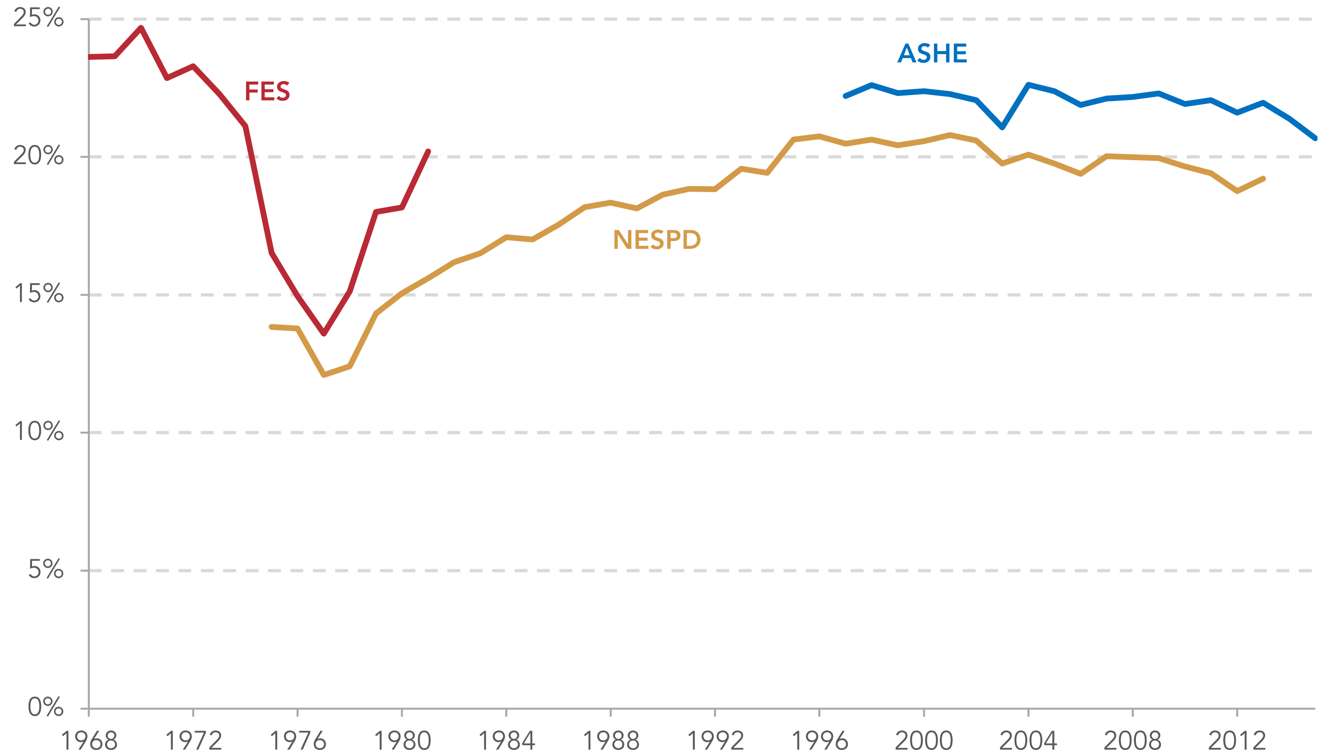
Combining different datasets to track low pay over time

As detailed in the main report, where we present time series stretching back before 1997, the figures are drawn from multiple sources. We use hourly pay data across full-time and part-time employees from three sources: the *Family Expenditure Survey* (FES) covering 1968 to 1981; the *New Earnings Survey Panel Data* (NESPD) between 1975 and 2013; and the *Annual Survey of Hours and Earnings* (ASHE) for the period between 1997 and 2016.

As the largest of the three surveys, ASHE provides the greatest level of accuracy. The FES data in particular should be treated with caution, with its derivation depending on the self-recording of 'normal weekly pay' and 'normal weekly hours worked'. In order to provide a consistent basis for our time series, we have adjusted both the FES and NESPD data to bring them into line with the ASHE figures. To do this, we consider the size of the gap between the various sources in the years in which they overlap and inflate or deflate over the remaining period accordingly. Figure 23 presents figures from the three sources in their raw form.

Figure 23: Proportion of all employees below selected two-thirds median hourly pay in different data sources: GB, 1968-2016

Proportion of employees below 2/3 all-employee median pay



Hours and Earnings data refer to hourly earnings excluding overtime and shift and premium payments and cover all employees aged 16 and over who report a valid work office region and who have not had their pay affected by absence in the time covered.

Sources: RF analysis of DWP, Family Expenditure Survey (1968-1981); ONS, New Earnings Survey Panel Data (1975-2013); and ONS, Annual Survey of Hours and Earnings (1997-2016)

Measuring low pay in ASHE

The data cleaning processes and assumptions we apply to ASHE microdata are similar to those used by the ONS. We use an hourly pay variable that excludes overtime and shift premia and we exclude jobs in which pay has been affected by absence from our analysis. In addition, we exclude jobs with missing or zero hourly pay data when calculating the prevalence of low pay, but then use a specifc low pay weight included in ASHE in order to report the number of low paid people taking account of those missing wage information. While ASHE statistics published by the ONS cover the UK as a whole, the microdata available to researchers is for Great Britain only, therefore the majority of the analysis in this report excludes Northern Ireland.

To calculate the number and proportion of employees 'on' the National Minimum Wage (and National Living Wage) we capture employees earning up to 1 per cent above their age-specific NMW/NLW rate (i.e. this measure includes those earning below the NMW due to non-compliance). The 1 per cent buffer is applied due to uncertainty in the hourly wage data and because many employees are paid a few pence above the rate itself in order that their employers not be considered 'minimum wage businesses'. However, in practice, their wages are strongly determined by the rate of the NMW, not least because the NMW has grown by at least 1 per cent each year since 2001, meaning that those up to 1 per cent above it are likely guaranteed a pay increase. Apprentices paid more than their legal minimum (£3.30 in April 2016) but less than the usual minimum for their age group are nonetheless counted as 'on' the NMW/NLW.

Assessing the impact of the National Living Wage on low pay

In Section 2 of this report we cast forward to how Britain's prevalence of low pay might look in 2020, when current estimates suggest the NLW could be around £8.75. To do this we follow the same methodology used in our previous reports on the potential impact of the NLW.[19] For a detailed description of our approach refer to the annexes to these reports.

A summary of some of the key steps is as follows:

- To cast forward to 2017, 2018, 2019 and 2020, we identify the values that are the percentage of median earnings of those aged 25 and over in the 2016 ASHE microdata as projected by the Low Pay Commission for the NLW's trajectory. It should be noted that this pace of change in the NLW from 2017-19 may not match our estimates due to the eventual NLW rates having slightly higher or lower bites than anticipated. The knock-on impact of this is that our projected number and proportion of low paid people may not reflect the outturn.
- We apply these estimates of the NLW to the wage distribution, adjusting affected individuals' wages up to (at least) the new minimum.
- As well as direct effects on employees whose pay is below the new minimum, we incorporate indirect or 'spillover' effects, where wage increases ripple higher up the wage distribution, for example in order to preserve the earnings differentials that existed prior to the new wage floor. These are modelled on the basis of the latest academic literature on their size and incidence in the UK.
- The resulting estimates of the number of people in low pay are uprated beyond 2016 and up to 2020 using OBR projections for employment growth.

[19] C D'Arcy, A Corlett & L Gardiner, Higher ground: Who gains from the National Living Wage?, Resolution Foundation, September 2015; C D'Arcy & A Corlett, Taking up the floor: Exploring the impact of the National Living Wage on employers, Resolution Foundation, September 2015

Resolution Foundation

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- *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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