

# Low paid workers: the forgotten poor



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Poverty in the workless population is well documented and being tackled by the government in its welfare to work policies. Yet poverty among low paid workers remains a pressing issue. For

those who need it most – including those providing essential services such as childminding, cleaning and catering – the National Minimum Wage has made little real difference, nor is the tax credits system making real inroads. Here, Carol Murray from the Scottish Low Pay Unit argues for the problem to be first addressed at its source: increasing the minimum wage to an adequate, flat-rate level.

WHEN SOMEONE THINKS OF POVERTY, it's usually people who are out of work due to illness, unemployment or retirement who first come to mind. The government's anti-poverty strategy has focused largely on increasing the employment level, and the success of these measures has indeed resulted in decreasing levels of poverty. However, as research by the New Policy Institute for the Joseph Rowntree Foundation<sup>1</sup> confirms, work is not a guaranteed route out of poverty; according to this study of poverty and social exclusion in the UK, two-fifths of people in low income households of working age now have a member of their household in paid work.

Low paid workers are at a disadvantage in many ways. Not only do they face financial disadvantage because of their low earnings, but this earnings level often forces them to work longer and more unsociable hours, creating increased childcare costs for those with children. Their employment status means disqualification from claiming most benefits; even those with the lowest wages can face such a sharp downturn in benefit eligibility that it actually costs them money to work, especially once travel and clothing costs are taken into account. Yet giving up work could attract benefit sanctions, creating a poverty trap.

## Defining low pay

It's important to be clear about what we mean when we talk about low pay. At the Scottish Low Pay Unit (SLPU) we use a number of thresholds in our research, linked to median<sup>2</sup> earnings in order to measure wage inequality. The first of these is the Low Pay Threshold of two-thirds of male median earnings (the male figure is used to ensure the threshold is not affected by the gender pay gap); this currently stands at £7.44 an hour.

We would consider any worker earning less than this to be low paid. We set our recommended rate for the National Minimum Wage (NMW) in a similar way; the Minimum Wage Target is set at half of male median earnings, currently £5.59 an hour. The third threshold we refer to is the current level of NMW. In each case, when referring to weekly earnings levels we simply multiply the hourly threshold by the average number of hours worked per week.

Gathering data on low pay is difficult, especially at a local level, because of the small sample sizes used in the Office of National Statistics' *Annual Survey of Hours and Earnings* (the main source of official data on earnings in the UK). This survey's focus on employees who are registered under Pay As You Earn also hampers research to a certain degree, as many low paid workers pay no tax either due to their low earnings level or 'cash in hand' working. There have been a number of alterations to the official earnings survey recently, so much so that it took on a new name

in 2004 (previously this survey was titled the *New Earnings Survey*). One of the most welcome aspects of this change is the shift from concentrating on average earnings to median earnings; the median is preferred when examining low pay as the average often obscures the extent of lower wage rates, being easily skewed by a minority of extremely high earners.

Who are the low paid?

Ironically, most of the very lowest paid workers are performing jobs which are absolutely vital to the smooth running of our society: carers, child-minders, workers providing services such as cleaning and catering, and the retail workers who enable better-off workers to fuel our economy by spending disposable income. Table 1 illustrates the differing rates of pay available across occupational groups. It should be noted that these figures represent the mid-point, rather than showing specific examples of low pay.

The likelihood of being low paid also varies from area to area. Regular readers of *Poverty* would not be surprised to see which areas fare the worst, as these are the same areas flagged up time and time again as suffering greater levels of poverty. Table 2 outlines median pay levels across the UK; a more thorough examination would show greatly varying pay rates between the various districts within these areas.

Some specific groups in society are more susceptible to low pay than others, as a result of structural disadvantage and discrimination. The Low Pay Commission<sup>3</sup> found that workers from ethnic minority groups, disabled workers and female workers were more likely to be low paid. Research by the SLPU suggests that low pay is also more prevalent among younger workers. The government has a particular focus on reducing the gender pay gap, with female workers' earnings currently only reaching around 85 per cent of the male equivalent. Minimum wage legislation has assisted in closing the gap to a certain degree, with a closure of around 0.5 per cent a year in the years immediately following its introduction, but the insufficient level of subsequent increases in the rate of NMW has meant that this effect is now tailing off.

State intervention

The current administration has acknowledged the problems posed by low pay, introducing the NMW in 1999 and a system of tax credits to help bolster the income of the worst-off employees. However, the NMW has been set at a level too cautious to provide protection from

poverty; and the tax credit system is, at best, of dubious benefit to low paid workers. Those aged under 25 are ineligible, and the vast proportion of beneficiaries are those with children.

Although the impact on child poverty is not to be underestimated, the low level of assistance provided to the childless means that they are less able to save and invest for the future, creating the knock-on effect of an increased risk of poverty for any children they subsequently have. There are also problems with the way tax credits impact on earnings potential. The tail-off in tax credits as earnings grow can discourage employees from seeking higher paid employment; and as tax credits provide a subsidy to low paying employers, they encourage bosses to offer wage rates as low as possible.

Table 1: Gross median hourly earnings by occupational group (excluding overtime), United Kingdom, 2004

Occupational group	All employees (£)	Male (£)	Female (£)	Female as % of male
Managers & Senior Officials	19.16	17.04	13.16	77.2
Professional	17.10	17.35	16.84	97.1
Associate Professional & Technical	12.34	12.97	11.72	90.4
Skilled Trades	9.18	9.47	6.15	64.9
Administrative & Secretarial	8.06	8.80	7.92	90.0
Process, Plant & Machine Operatives	7.82	8.07	6.39	79.2
Personal Service	6.68	7.23	6.58	91.0
Elementary	5.81	6.69	5.31	79.4
Sales & Customer Service	5.63	6.08	5.50	90.5
<b>All employees</b>	<b>9.29</b>	<b>10.73</b>	<b>7.97</b>	<b>74.3</b>

Source: National Statistics, *Annual Survey of Hours and Earnings*, ONS, 2004

Table 2: Regional gross median earnings, all employees, United Kingdom, 2004

Region	Weekly median earnings (£)	% of UK median	10% paid less than per week (£)	10% paid more than per week (£)	Bottom decile as % of top decile
London	479.40	138.2	149.00	1,084.90	13.7
South East	372.70	107.4	115.20	807.90	14.3
East	344.00	99.2	100.20	745.00	13.4
North West	329.40	95.0	109.30	691.90	15.8
West Midlands	328.20	94.6	103.90	676.40	15.4
Yorks. & Humber	325.20	93.7	104.00	668.70	15.6
Scotland	323.50	93.3	108.30	681.40	15.9
East Midlands	322.80	93.1	103.40	665.20	15.5
South West	319.30	92.0	97.00	678.70	14.3
Wales	316.70	91.3	104.10	652.30	16.0
Northern Ireland	305.60	88.1	110.00	647.30	17.0
North East	302.60	87.2	96.80	639.80	15.1
<b>United Kingdom</b>	<b>346.90</b>	<b>100.0</b>	<b>109.20</b>	<b>750.50</b>	<b>14.6</b>

Source: National Statistics, *Annual Survey of Hours and Earnings*, ONS, 2004

National Minimum Wage legislation disadvantages younger workers in a similar way to tax credits. Most workers aged 16 or over are entitled to some form of protection, but at varying levels. At the time of publication, workers aged 16–17 are entitled to £3.00 an hour, those aged 18–22 are entitled to £4.10 an hour and for workers over 22 the applicable rate is £4.85 an hour. On 1 October 2005 there will be a rise to £4.25 and £5.05 for older workers, but no rise for 16–17-year-olds. Contrary to popular belief, the NMW is not universal. There is a complicated system of entitlement for apprentices and trainees, under which many have no protection whatsoever for up to four years at a time, and certain categories of worker such as au pairs and share fishermen are ineligible. The complexity of the system, alongside the low level of protection, serves to make the NMW largely ineffective in preventing all but the most extreme cases of poverty.

#### The situation in Scotland

The level of low pay in Scotland is not materially different from that in the rest of the UK; in fact, the level of low pay in Scotland is often very similar to the figure for the UK. As in Wales and the various English regions, rural areas often record lower levels of median or average pay, and distribution of earnings data shows that (despite the greater incidence of higher earnings) in urban areas the bottom tenth of earners have extremely low wage rates.

In relation to work on behalf of the low paid, working within a devolved administration does create some difficulties. Devolution has resulted in a situation where, although it is agreed across the board that services such as pay advice, campaigning and research are essential for monitoring and alleviating low pay, maintaining these services is problematic. The Scottish Parliament and Executive have no remit to support such services due to the reserved nature of employment law, yet most UK-wide sources of support will not engage with Scottish service providers such as the SLPU because of a perception that the Scottish authorities should have responsibility. Consequently, it is left to local authorities to ensure these services are available for their residents. Unfortunately, funding cuts mean that they are increasingly unable to do so.

Funding has become precarious for all organisations dealing with pay and employment rights issues since the introduction of the NMW, resulting in the closure of three of the five Low Pay Units within the past two years. Demand for

advice and information on low pay issues is perhaps even greater now that the minimum wage exists, resulting in pressure on the remaining organisations to cope with larger numbers of clients.

#### Recommendations for change

The Scottish Low Pay Unit believes that an adequate level of National Minimum Wage would provide an effective cornerstone for the government's anti-poverty strategy. Increasing benefit levels and providing more assistance to those in work may provide a treatment for poverty on the surface, but this approach fails to tackle (and may even exacerbate) the root cause of in-work poverty: that workers do not earn enough money to survive. Ideally, we would recommend that extensive, nationwide research be undertaken to establish a 'living wage' level on which to base the NMW. In the meantime, we believe that a universal, flat-rate NMW based on at least half of male median earnings would be an important step towards eradicating poverty and providing a more equitable level of pay for the workers who are the foundation of the UK's economy. ■

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1 G Palmer, J Carr and P Kenway, *Monitoring Poverty and Social Exclusion 2004*, Joseph Rowntree Foundation, 2004

2 The median is the middle value in the distribution of earnings of the population

3 Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2005*, Low Pay Commission, 2005