RF

Resolution Foundation
REPORT

Low Pay Britain 2018

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Acknowledgements

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Executive Summary

This is the eighth annual Resolution Foundation report on low pay. Last year's edition marked the start of a new era for the lower-paid end of the labour market, with the introduction of the National Living Wage (NLW), the higher minimum wage for those aged 25 and over. The main analysis presented here – based on data from April 2017 – assesses the policy's impact so far before projecting forward to 2020. It concludes that the NLW will make inroads into, but not solve, the UK's low pay problem. This year's report therefore stakes out the new frontiers that policymakers need to refocus their attention on if they are to confront low pay in 21st century Britain.

The NLW continues to shake up the low-paid labour market but without radical responses from employers

Prior to the NLW, the UK's low pay story had become a depressingly repetitive one. Roughly one in five employees earned less than the low-pay threshold (two-thirds of median hourly earnings, or about £8.30 in 2017). While that proportion fluctuated up and down from year to year, there had been little structural change since the early 1990s. April 2016 opened a new chapter, with a rapidly increasing minimum wage leading to much stronger wage growth for lower earners than those higher up the pay ladder, and the largest fall in the number of workers in low pay in decades.

That trend continued in 2017. The share of employees in low pay fell from 19 per cent to 18 per cent, the lowest proportion since 1982. This represents a meaningful improvement, with the number of employees that are low paid falling to 4.9 million, the first time that figure has dipped below 5 million since 2003. An even higher number – 6.2 million, or 23 per cent of all employees – earned less than the Living Wage, the voluntary standard that aims to provide a minimum acceptable standard of living. But gains were evident on this measure too, having fallen from 24 per cent a year previously.

Key low pay statistics in April 2017

- 18 per cent of employees earned less than two-thirds of the median hourly wage, equivalent to 4.9 million people
- 14 per cent of men and 22 per cent of women fell below this threshold
- 36 per cent of part time employees were low paid compare to 11 per cent of full time employees
- The share of employees in low pay was highest in Nottingham (24 per cent) and Sheffield (23 per cent)
- The industries in which low pay was most common were accommodation and food services (58 per cent), wholesale and retail (33 per cent) and agriculture (31 per cent)
- 7 per cent of employees were paid below, at or slightly above the minimum wage
- 23 per cent of employees were paid less than the voluntary Living Wage

Along with declining numbers in low pay, history teaches us that the NLW is also likely to lead to an increase in the share of employees paid at or very close to the minimum wage. But while that bunching of a larger group of people at the wage floor did occur in 2016, that pattern did not continue in 2017. In fact, the proportion of employees on the lowest wages fell slightly, to 7 per cent. This suggests that employers are opting to maintain the differentials between the lowest-paid members of staff and those on the next rung up, at least to some extent.

Narrowing differentials is not the only option available to firms seeking to respond to, and in some cases offset, the higher wage bill that the NLW brings. The offsetting response policymakers would welcome most – higher labour productivity – has not appeared but there is also little evidence of the most feared reaction – a drop in employment. The typical number of hours worked by low earners did dip slightly in 2017 but remains broadly in line with 2014 and 2015. Price rises in low-paying sectors like accommodation, restaurants and cafes have outpaced the overall inflation rate, but that trend was already established prior to April 2016. While the policy remains a relatively new addition to the UK labour market, no one response appears to dominate so far.

Policymakers need to get to grips with the new frontiers of low pay

The absence of clear negative responses to date is encouraging but should not breed complacency among policymakers. The challenges faced by some employers and low-paying sectors are real and a close eye should be kept on the NLW's effects. From the point of view of the living standards of those on low pay, understanding how higher hourly pay is translating into weekly wages is crucial, particularly at a time when millions of families in receipt of in-work benefits will be facing large cuts to their incomes.

And with the NLW now just two years away from reaching its target of 60 per cent of median earnings among those aged 25 and over, those concerned about low pay should be thinking deeply about the issues affecting people in low-paid work that stretch beyond the legal minimum hourly wage. For the more than 4 million people projected to still be in low pay in 2020, a deeper understanding of the new low pay challenges we face is needed, alongside the imagination to create new policy responses. As well as the question of hours that has been addressed in other Resolution Foundation research, this report focuses on three key challenges: progression, the role of firms and the opportunities available to low-paid women.

Pay progression is not a reality for most low-paid workers and opportunities are unequally shared

The chance to progress is one of the elements of low pay that has been underexplored, with just one in six low-paid employees moving onto consistently higher wages over the course of a decade. To shine further light on this issue, we examine the routes taken by sales assistants – one of the most common low-paid jobs – to explore the extent of and the routes by which progression is taking place. Some movement does occur: just over half of sales assistants in 2011 had moved into other occupations by 2016, going on to typically earn 18 per cent more than those who stayed put.

But even among those who did switch occupation, those moves were often into similar, low-paying positions. This was especially the case for women, part-timers and older workers. Even more concerning is the weakness of the direct progression route in retail; just 4 per cent of sales assistants had become sales supervisors or retail managers five years later, while only one in 10 such managers had been sales assistants five years earlier. While just one example of a low-paid occupation, and in a sector that can offer genuine opportunities to move onto higher wages, this underlines the challenge facing many seeking to progress and the dearth of opportunities available, especially for those with caring responsibilities.

A handful of firms play a major role in low pay

In contrast to some classical views of the labour market, the firm that an employee works for clearly matters a lot for their pay and wider employment conditions. In some cases, a small number of firms can have a huge influence on certain parts of our labour market. That is particularly true within the world of low pay. Though comprising a tiny proportion of all firms, companies with 5,000 or more workers employ 28 per cent of all low-paid people. Crucially, when considering where power lies at the bottom end of the labour market, low-paid workers are also more likely to be concentrated within a handful of firms than mid- or high-paid employees.

This Britain-wide perspective conceals much greater concentration in particular places and industries. It may be these areas and sectors where concerns about monopsony, or the power of firms relative to workers, should be focused. Considering only those employees and firms present within the data available for 2017, a much higher proportion of low-paid workers in Nottingham and Birmingham are employed by the five firms employing the most low-paid people than in Bristol or London. On a sectoral level, low-paid workers in retail are much more likely to work for one of the five largest employers there than in hospitality.

In one sense, this concentration is an opportunity. Policymakers interested in improving low-paid work and moving towards a labour market with more better-paid jobs could have tremendous impact by targeting some of these biggest players. But the extent to which the lower end of the UK's pay ladder is concentrated raises more structural questions about the functioning of the labour market, the balance of power between firms and workers and the extent to which the dominance of a handful of firms leads to worse outcomes for employees and the wider economy. If monopsony is a problem in the UK, the low paid are likely to be worst affected.

The low pay gender pay gap is wide and underexamined

A common denominator across these new frontiers of the low pay challenge is that women are the most affected. Women are less likely to progress out of low pay, are more likely to switch into other low-paying jobs when they do move and are more concentrated in a handful of large firms than low-paid men. The government's gender pay gap reporting has been a welcome step forward, raising the issue of pay inequality up the agenda and sparking conversation and, hopefully, change in companies. But the headlines about unjustifiable gaps among some very well-paid workers in high-profile employers like the BBC are only part of the story. Women are more likely to be low paid than men, with 22 per cent of women falling below the low pay threshold compared to 14 per cent of men.

If the risk of being in a low-paid job was equally shared across the sexes, the mean gender pay gap would be one-fifth smaller. But even within many low-paying occupations, men typically earn more than women, suggesting that more action is needed to help women move into better-paying sectors but also into more senior positions in low-paying industries.

An updated approach is needed to combat low pay

The first step in addressing these new frontiers of low pay is acknowledgement from firms and policymakers that these are issues that need to be tackled. Complacency about low pay led to the situation from the mid-1990s onwards in which the UK was consistently at the bottom of the international league table in terms of the share of workers in low pay. A similar attitude to the challenges of today is likely to result in more workers becoming stuck in low pay, with excessive power held by a small number of firms and the groups that suffer most being women and part-time workers.

The NLW was a policy that understood times had changed and a new approach was needed. That mentality must be carried through into our wider strategy on low pay, dealing with the challenges facing low-paid workers today. Simply delivering the NLW or, indeed, just arguing for further increases in the wage floor, are both far from sufficient. We have come a long way, but there is much further to travel.

Section 1

Introduction

In this report – our eighth annual review of low pay – we explore how the low pay landscape is evolving. The National Living Wage has been the most notable element of that evolution, ratcheting up the wages of the UK's lowest earners. But a range of issues beyond the minimum wage – the new frontiers of the low pay challenge – are growing in salience.

The low pay challenge has evolved

Every year since 2011, the Resolution Foundation has published a review of low pay in Britain. The earliest reports helped establish the extent of low pay – with approximately one in five employees falling below the low pay threshold, as defined in Box 1 – and the groups most likely to be paid low wages – women, younger and older people and those employed in hospitality. While some shifts were evident – for example, young people's risk of being low paid has risen – the headline figure of roughly one in five workers being in low pay remained relatively static.

But since 2015 and the announcement of the National Living Wage (NLW) – the higher minimum wage for those aged 25 and over – that narrative has been overturned. 2016 brought the largest decline in the share of workers that were low paid in decades, with projections suggesting that pattern is set to continue up to 2020.

While a major boost to low earners, especially over a period when wages further up the pay ladder have sometimes failed to keep pace with prices, it's clear that the NLW will not solve the UK's low pay challenge. Last year's report featured focus groups with people earning less than £8 an hour. While their hourly rate was, of course, hugely important, a range of other issues – problems with low-paid jobs not related directly to how much they are paid – played a massive part in their experience of work. Though many found their work enjoyable or fulfilling, unpredictable scheduling, inflexible managers and increased workloads without commensurate pay rises often left participants feeling stressed and undervalued. A lack of training and progression opportunities made many feel like they had little chance of developing within their organisation and in some places, people were pessimistic about the possibility of finding better positions elsewhere. The progression challenge was viewed as especially difficult for mothers, with many employers failing to combine more senior positions with part-time or flexible roles.

The structure of this report

This year's report provides a snapshot of this rapidly changing landscape. Section 2 takes a closer look at the impact of the NLW to date, evaluating whether employees have benefitted and how employers are adjusting. Section 3 then reports on the share and number of people in low pay, how that varies by characteristic and projects ahead to 2020.

The subsequent sections then explore the new frontiers of low pay. They identify the issues those concerned with low pay in Westminster and elsewhere should be confronting now, rather than assuming that a higher minimum wage will solve all the problems facing low earners.

Section 4 deals with the challenge of progression, using the example of one of the largest low-paying occupations and the routes out of it.

Given the importance of firms in the issue of progression and low pay more generally, Section 5 addresses a question which has received increasing attention in the US but has been less developed in the UK: monopsony.

With women more likely to be low paid and less likely to escape from low pay, Section 6 then explores the question of gender in low-paying sectors.

Section 7 reviews the previous chapters and the direction they suggest policymakers should move in.

Finally, Section 8 provides in-depth statistics on the low-paid workforce and an Annex sets out the methodological approach taken.

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 less than 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 approximately £8.30 an hour in April 2017.

» 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, as promoted by the Living Wage Foundation. In April 2017, the London Living Wage rate was £9.75 and the UK Living Wage rate was £8.45. 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, below or up to 1 per cent above their age-appropriate minimum wage. In April 2017, the wage floor for those aged 25 and over was £7.50 an hour, with lower legal minimums applying to younger workers and first-year apprentices.

Section 2

The National Living Wage – a policy in progress

The UK is just over halfway through a major labour market experiment. April 2018 brought the third of five fast hikes in the wage floor for those aged 25 and over, narrowing the gap between those at the bottom and the median employee. As with any experiment, studying the effects – in this case, on firms and low-paid workers and, more broadly, the industries and areas they work in – is key to evaluating its success. The evidence to date suggests that the NLW has boosted the wages of low earners without significant offsetting measures, whether negative (job losses) or positive (higher productivity).

The NLW continued to deliver above-average wage growth for the lowest earners in 2017

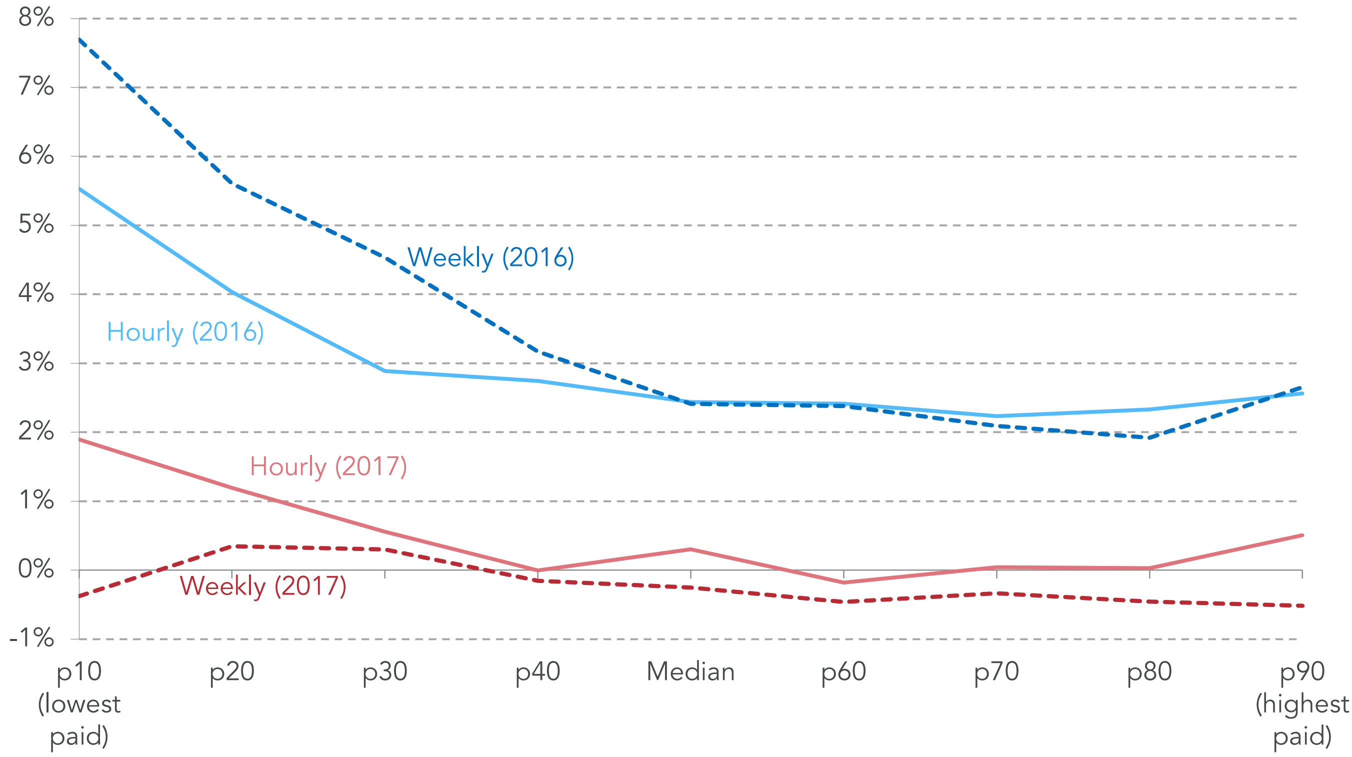
The NLW has now been in place for over two years. In that time, the wage floor has increased from £6.70 in March 2016 (just prior to its introduction) to £7.20 in April 2016, to £7.50 in April 2017 and most recently to £7.83 from April 2018. In his Budget speech announcing the policy, George Osborne stated that "Britain is able to afford a pay rise... and Britain is getting a pay rise."[1] Here, we explore whether Britain has received that pay rise so far and examine the evidence on how firms have reacted.

Figure 1 begins by checking whether low earners have in fact received that pay rise. It sets out pay growth in 2016 (the blue lines) and 2017 (the red lines) from the lowest earners on the far left of the chart to the highest on the right. The solid lines show hourly pay growth while the dashed lines represent weekly pay growth, all adjusted for inflation.

[1] https://www.gov.uk/government/speeches/chancellor-george-osbornes-summer-budget-2015-speech

Figure 1: Despite strong growth in hourly pay, weekly wages fell in real terms in 2017 for the lowest earners

Wage growth across the distribution (CPIH-adjusted): UK



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

Four elements stand out. First, hourly wage growth at the bottom was particularly strong in 2016. The increase in 2016 – a 50p jump – was one of the largest in the UK minimum wage's history. Given this, it is little surprise that, for the lowest paid (those at the 10th percentile of earnings, or employees earning less than 90 per cent of all employees), this contributed to a 5.5 per cent real-terms increase in hourly wages. This was significantly higher than both better-paid employees and the historical norm for low earners. Two factors combined to make the increase in 2016 so strong. First, the best data source on wages in the UK is the ONS's *Annual Survey of Hours and Earnings* (ASHE), which is collected in April each year. From 2016 onwards, the minimum wage rates rise in April each year. But prior to 2016, the rates rose in October. This means that the period from April 2015 to April 2016 captures two increases in the wage floor, rather than one. A second element underlying the reasonable pay growth across the distribution in Figure 1 is the relatively low inflation experienced over 2015-16. CPIH – the ONS's headline measure of inflation – averaged 0.45 per cent from April 2015 to March 2016, well below the Bank of England's 2 per cent target.

The second – surprising – conclusion from Figure 1 is that at the lower end of the distribution, weekly wage growth was even stronger than hourly wage growth in 2016. The NLW certainly played a role in this but the tightening of the labour market, including the fall in the share of part-time employees seeking more hours but unable to find them, is also likely to have been a major contributor to this welcome trend. This is particularly welcome from a living standards perspective, with weekly pay a crucial determinant of how much families have to spend.

Third, hourly wage growth was less remarkable in 2017. The hourly earnings growth of the lowest paid continued to outshine that of those further up the pay ladder: a 1.9 per cent real-terms rise at the 10th percentile compared to 0.3 per cent at the median. But a smaller hike in the NLW and higher inflation – averaging 1.5 per cent between April 2016 and March 2017 – meant the rapid real-terms gains of 2016 were not repeated.

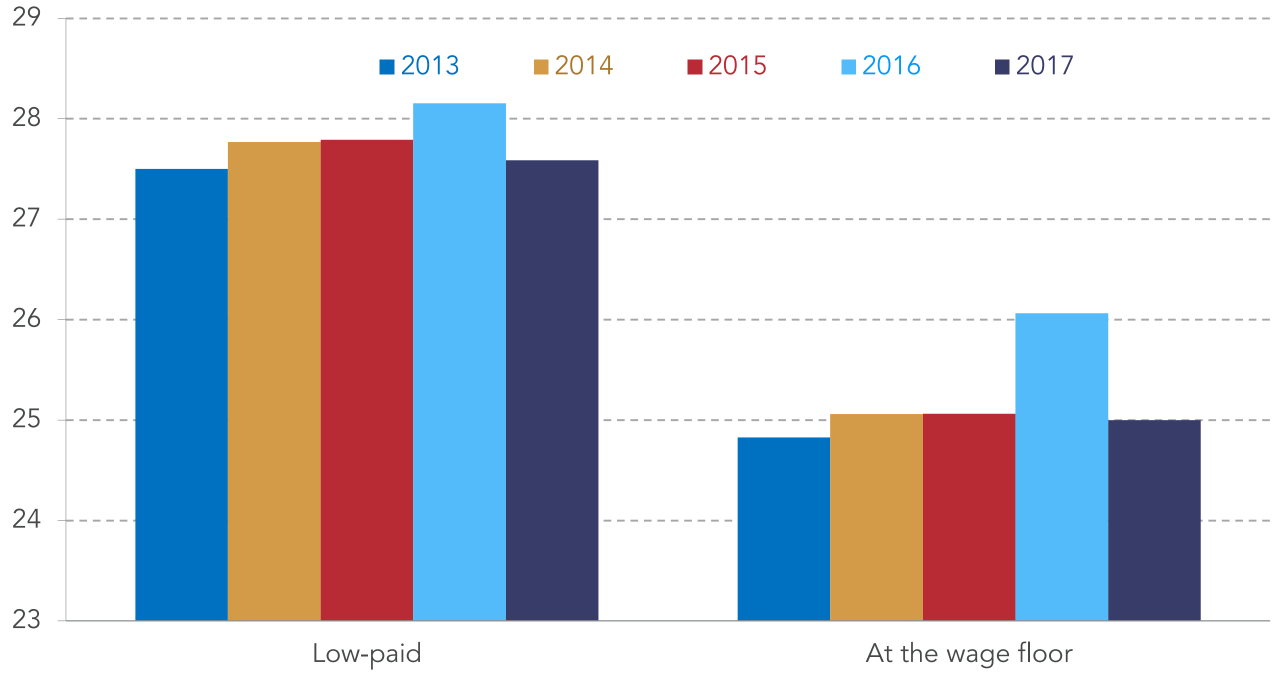
Fourth, weekly wage growth also weakened in 2017, with pay falling in real terms across much of the distribution. But in a notable break from both 2016 and hourly wage growth in 2017, weekly wage growth was less obviously tilted towards the lowest earners. Weekly wages fell by 0.4 per cent for those at the 10th percentile. While this drop is broadly in line with that visible from the median up to the highest earners, it is nonetheless in contrast to the pattern observable on hourly wages.

One potential interpretation of this trend is that firms are offsetting the cost of the NLW by offering fewer hours to low-paid staff, resulting in higher hourly wages but lower weekly earnings. It is important to remember, however, that the overlap between those on the lowest *weekly* wages and those on the lowest *hourly* wages is far from complete. Among the lowest 10 per cent of the weekly wage distribution, 33 per cent are paid at or near the wage floor. While much higher than across the whole distribution – overall, 7 per cent of workers are paid at the wage floor – it is only a little higher than the proportion in the second weekly wage decile (29 per cent). Given the second decile was the part of the distribution that experienced the highest weekly wage growth in 2017, this suggests that other factors – such as the composition of the workers in these deciles – seem more plausible than a simple NLW effect.

But to explore this question in more depth, we can look at the number of hours worked by those on the lowest hourly wages. Figure 2 indicates that there was a small decrease in the median number of hours worked by both low-paid employees (earning less than two-thirds of the median hourly wage) and those paid at the wage floor in 2017 compared to 2016. No similar trend was evident for non-low-paid workers. Looking back to 2013, this is the first decrease in median hours for lower earners over this period. But Figure 2 also makes clear that the number of hours worked by these groups in 2017 was almost identical to the number in 2014 and 2015. It is 2016 that appears to be the (positive) exception in recent years rather than 2017.

Figure 2: The hours worked by low earners have remained relatively stable in recent years

Median number of total hours worked by hourly pay status: GB



Notes: See Box 1 on page 10 for definitions of 'low pay' and 'at the wage floor'.

Source: RF analysis of ONS, *ASHE 2013-2017*

Supporting evidence can also be taken from other datasets. Using the Labour Force Survey (LFS), we can compare the second quarter of 2016 with the second quarter of 2017, which covers the period in which ASHE was completed. Unlike in ASHE, in the LFS both weekly pay growth and hourly pay growth were strongest at the lower end of the distribution, with weekly pay growth outstripping hourly pay growth.

Taking this LFS analysis together with Figures 1 and 2, it appears that the spike in hours worked in 2016, and the subsequent return in 2017 to the levels of previous years, is the most likely explanation for this disparity in the ASHE data. This is an issue on which a close eye should be kept, and the above provides only a brief overview of this issue. For instance, we have not taken into account possible compositional change in the kinds of workers found at the bottom of the weekly wage distribution from year to year. That said, the evidence presented does not suggest fears of an 'hours effect' are merited so far.

Nonetheless, it acts as an important reminder that when considering low pay and its relationship to living standards, hourly wage gains mean little if workers cannot get as much work as they would like. It also raises the question of what firms *have* done in response to additional costs brought by the NLW.

No single measure appears to be dominating firms' responses to the NLW

Having established that the NLW has delivered pay rises for low earners, the question remains of where the cost of the policy lies. As a wealth of economic literature and previous Resolution Foundation reports have explored, there are several options open to firms faced with an increasing wage bill. The NLW is still a relatively fresh addition to the UK's labour market; as such, the data available is far from complete. But with this caveat in mind, we can review the evidence to date for a variety of potential responses. Such responses can be considered negative (lower employment or a rise in involuntary atypical work) or positive (increased productivity). The evidence to date suggests no single reaction has dominated

Lower pay growth for higher earners

One potential means through which employers can offset a higher minimum wage is by limiting pay increases for higher earners. The Bank of England's Agents' summary recently reported that such a response was being employed, with some firms planning to "limit management pay increases to 1%–2% in order to hold down their overall pay settlement".[2]

It is possible that the NLW is contributing to some of the lacklustre wage growth visible higher up the pay ladder in Figure 1. But given wage growth has been lower than would normally be assumed given record high employment rates, and this has been the case for even the highest earners, the NLW is likely to be only a small piece of this pay puzzle. (See Box 2 for a discussion of the impact the minimum wage has had on long-run pay inequality.) And as the next section of this report discusses, the proportion of workers paid at or just above the wage floor did not grow in 2017, suggesting differentials between the lowest earners and those on the next rung of the pay ladder are being maintained to some extent.

[2] Bank of England, *Agents' summary of business conditions:* February 2018 Update, February 2018

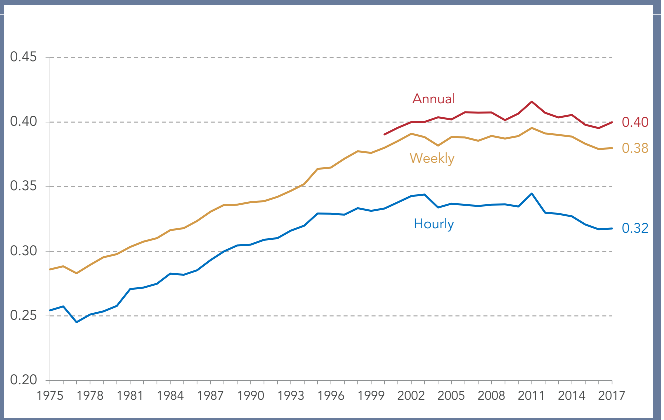
Box 2: Pay inequality and the minimum wage

The story of pay inequality in Great Britain over the last 40 years can broadly be divided into three chapters, each of which are visible in Figure 3. The chart provides the Gini coefficient – a measure of inequality in which 0 represents perfect equality and 1 represents complete inequality – for hourly, weekly and annual wages. From the late 1970s till the mid-1990s (and slightly later for weekly wages), wage inequality grew rapidly. This coincided with many changes in the labour market, with an increase in low-paid jobs in the 1980s and the rise of higher salaries. While a welcome development, rising employment rates among women are also likely to have played a role, particularly for weekly wage inequality with women more likely to work part-time.

From the mid-1990s up to the end of the recession around 2010, weekly and annual pay inequality fluctuated but remained broadly flat. The third phase is visible since 2010, with declines in annual, weekly and hourly wage inequality. The growth of wages at the top of the pay ladder plays an important role in the variation of the Gini coefficient from year to year. Nonetheless, the fall seen in 2016 was considerable, which the NLW contributed to. But the limits of minimum wage rises are made clear by the fact that, despite hourly wage growth being strongest for the lowest earners, the hourly Gini actually increased slightly in 2017.

This reminds us that a high minimum wage, or policies focused solely on the lower end of the labour market, are unlikely to solve the issue of pay inequality.

Figure 3: Gini coefficient in Great Britain for different wage measures: GB



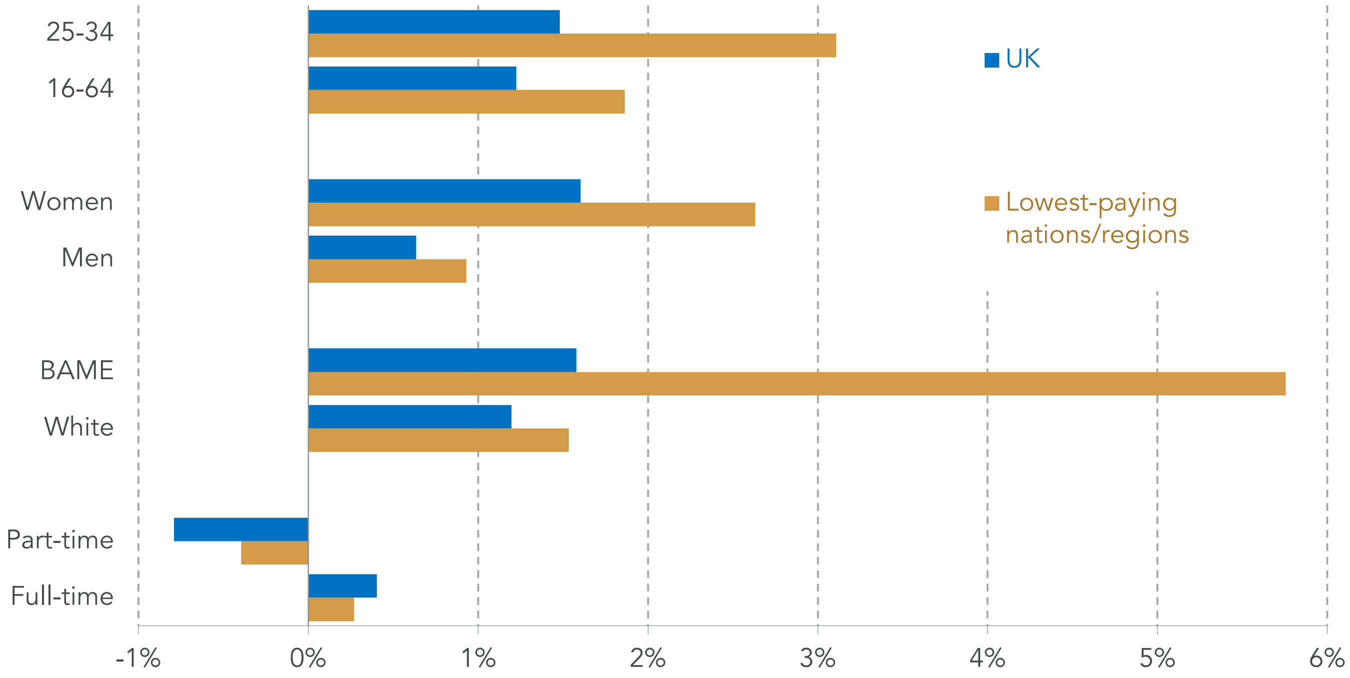
Source: RF analysis of ONS, *ASHE*

Reducing employment

The option available to employers that has attracted the most concern – and the most research – is cutting back the number of hours offered to low-paid staff, or employing fewer low-paid workers overall. As documented in last year's *Low Pay Britain* and in the analysis performed by the Low Pay Commission (LPC) for their annual report, this does not appear to have happened so far. In the context of the UK's recent record-setting *headline* employment rate, groups more likely to be earning at or close to the minimum wage – those just above the age threshold, women, Black, Asian and minority ethnic (BAME) people and those working part-time – have in fact generally experienced faster-than-average employment growth, as Figure 4 illustrates.

Figure 4: Employment has generally risen faster for workers more likely to be low paid

Change in employment rate by area and characteristic: Apr 2015-Mar 2016 - Oct 2016-Sep 2017



Source: RF analysis of ONS, Annual Population Survey

The employment rate of women, younger people and BAME people (more likely to be low paid) all rose faster than for men, workers aged 16-64 and white people (less likely to be low paid). A different pattern is visible on employment status: the proportion of those in work who are part time (and more likely to be low paid) has fallen. But given this period coincided with strong growth in employment, and with a shrinking section of part-timers saying they would prefer to work full time, this trend appears to fit better within the narrative of a tightening labour market rather than a minimum wage effect.

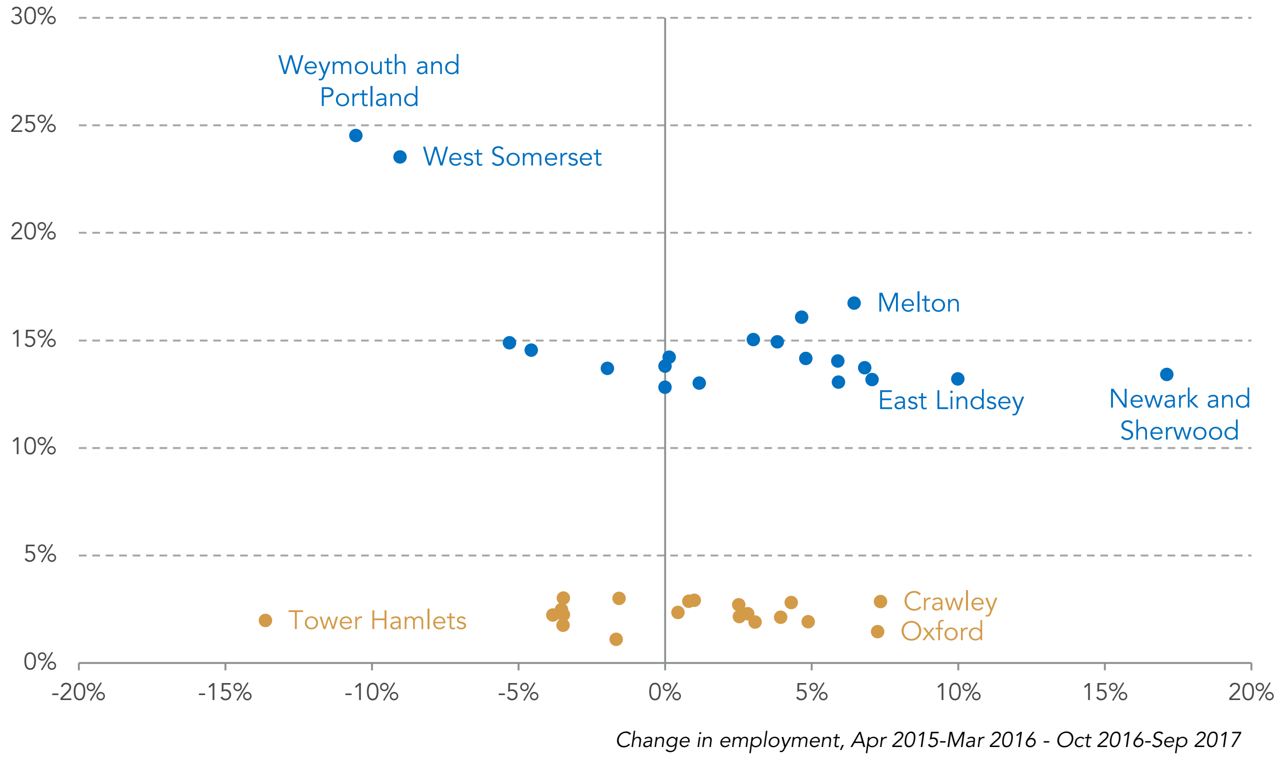
It may be, however, that the impacts are greater for these groups in lower-paying parts of the country. For instance, because a higher share of workers in Northern Ireland are paid at the minimum wage than in London, any negative impacts are more likely to become visible there first, rather than in the capital. Figure 4 investigates this, with the gold bars detailing how employment in each of the categories fared in the three nations and regions of the UK with the highest proportion of employees paid at or near the wage floor in 2017 (Northern Ireland, the North East and the West Midlands). As with the UK-wide findings, we again see that employment growth has been stronger among those workers most likely to be low paid. And in fact, employment growth has been even stronger for these typically low-paid groups in these lower-paying areas than for other workers.

While this appears reassuring, considering changes only at the level of a nation or region may obscure effects at a more local level. Identifying such trends is more challenging because of the often small number of people surveyed in order to produce data at a local authority level. Focusing on smaller geographies also means the data is more vulnerable to local events e.g. the closure of a factory would damage employment in an area but could be entirely unrelated to changes in the wage floor. Nevertheless, the insights on this more local level are crucial to understand the NLW's effect. We improve reliability by switching focus from specific groups to all workers in order to make our analysis more reliable.

Figure 5 charts the change in the employment rate in the 20 local authorities with the highest proportion of workers paid at or close to the minimum wage in April 2017, and contrasts it with the 20 local authorities with the lowest proportion on the minimum wage. These 'high-coverage' areas are spread across Great Britain[3] but are particularly concentrated in the East Midlands and the South West, while London and the South East dominate the 'low-coverage' areas. The share of workers paid at the minimum wage across Great Britain is 7 per cent but in these high-coverage localities (the blue dots), this figure ranges from 12.8 per cent in Hyndburn to 24.5 per cent in Weymouth in Portland. In the low-coverage areas (the gold dots), coverage varies from 1.1 per cent in Bracknell Forest to 3 per cent in Poole.

Figure 5: Changes in employment in low-paying areas have not differed significantly from higher-paying places

Share of workers paid at or close to the minimum wage, April 2017



Notes: Local authorities with highest and lowest coverage are taken from *Low Pay Commission April 2017 minimum wage rise analysis*

Source: RF analysis of ONS, *Annual Population Survey*

[3] Unfortunately, data is limited for Northern Ireland. Research has been produced for the Low Pay Commission focusing specifically on the impact of the NLW in Northern Ireland, with particular regard to border effects. D McVicar, A Park and S McGuinness, *Employment and Hours Impacts of the National Minimum Wage and National Living Wage* in Northern Ireland, Low Pay Commission, November 2017

As Figure 5 reveals, there appears to be little relationship between the change in employment since the introduction of the NLW (shown on the x-axis) and coverage of the NLW (y-axis). Overall, employment rates actually rose slightly faster in the high-coverage areas over this period. And while the two local authorities with the highest coverage – Weymouth and Portland and West Somerset – have been among the worst performers, the largest single drop in employment rates was in Tower Hamlets, where just 2 per cent of employees are paid at or near the wage floor. But this tells us less about the long-term trend; it could be that employment growth has been even stronger in these areas prior to the introduction of the NLW, and this has served to narrow the gap. Carrying out a difference-in-differences estimation to help control for these effects over time does not produce statistically significant effects, suggesting the NLW is unlikely to have sparked a weakening of employment growth in these places.

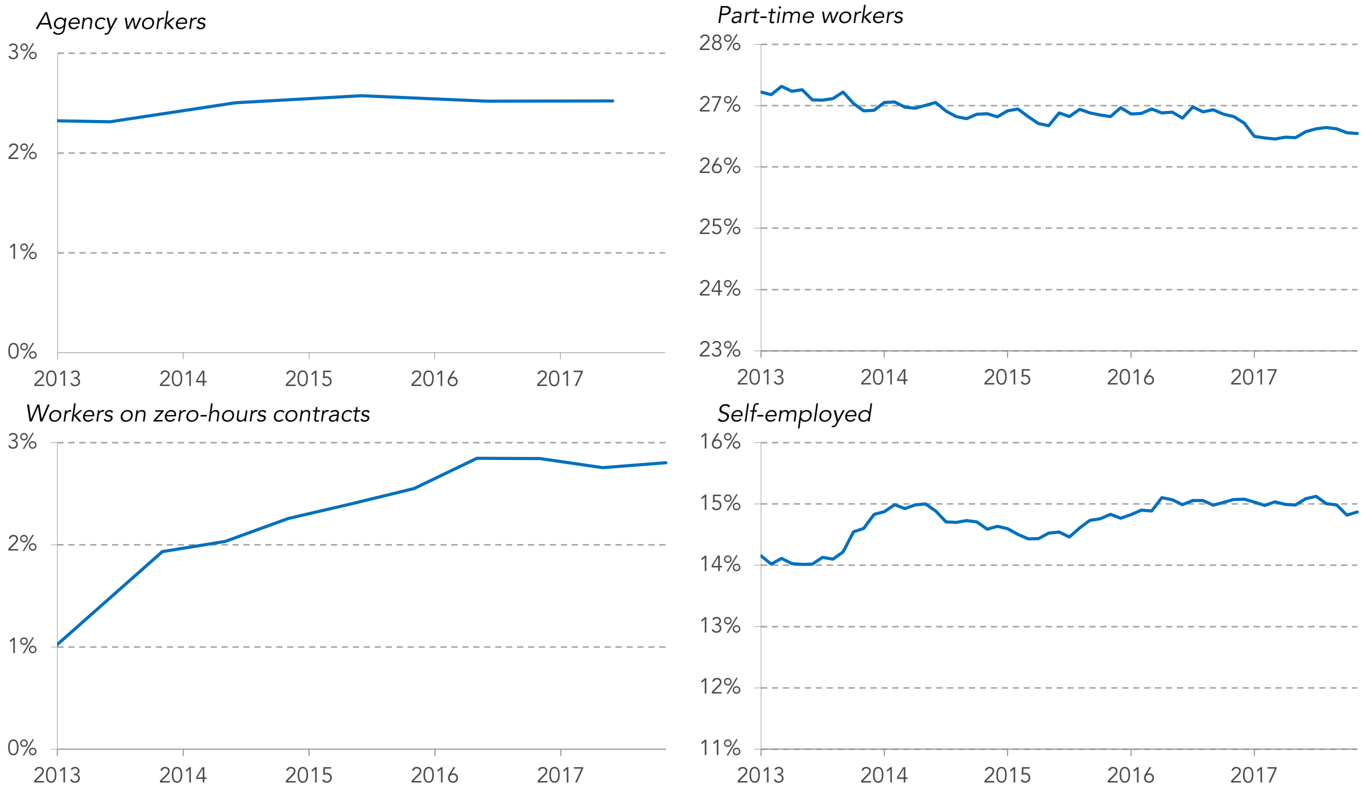
Increasing the use of flexible contracts

A drop in the proportion of people in work is not the only way a disemployment effect can manifest itself. With each hour worked by minimum wage earners now costing more, one potential adaption firms could exploit is to increase their use of atypical contracts, helping to ensure they only use labour when needed. Hiring more workers on flexible terms like zero-hours (ZHCs) or low-hours contracts allows companies to minimise 'excess' working time.

Again, the evidence of such a tactic becoming more common appears limited. As Figure 6 highlights, the share of the workforce that work through agencies, part-time, on zero-hour contracts or are self-employed has remained flat or fallen since 2016. While little data is currently available on the share of people working on low-hours contracts, the number of ZHC workers has remained static at about 900,000 for the past year or so. Focusing specifically on low-paying industries, though, reveals a more varied picture. While the share of ZHC workers in large, low-paying sectors like hospitality and administrative and support service remained broadly unchanged between the fourth quarter of 2016 and the same three months in 2017, 10.7 per cent of those in wholesale and retail had no guaranteed hours, up from 8.4 per cent in 2016. Given trends in other industries, this increase appears unlikely to be driven solely by the NLW. It does, however, serve as a reminder – one that is particularly timely as the government moves forward with the Taylor Review's recommendations – that encouraging signs that atypical work has peaked can mask a more complicated situation.

Figure 6: Many forms of atypical work have plateaued in the last 18 months

Share of all those in employment in selected forms of atypical work: UK



Notes: For definitions of agency workers, see L Judge, *Secret Agents*, Resolution Foundation, December 2016

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

Raising productivity

The most desirable response to a higher minimum wage is, arguably, raising labour productivity. In theory, a higher minimum wage could spur a firm to boost the output of its workers, by enhancing their skills or equipping them with output-boosting technology. There is some research that suggests that larger firms *did* become more productive in reaction to the National Minimum Wage (NMW).[4] Because the NLW takes the UK's wage floor into new terrain, it may be that firms see an even greater incentive to become more productive.

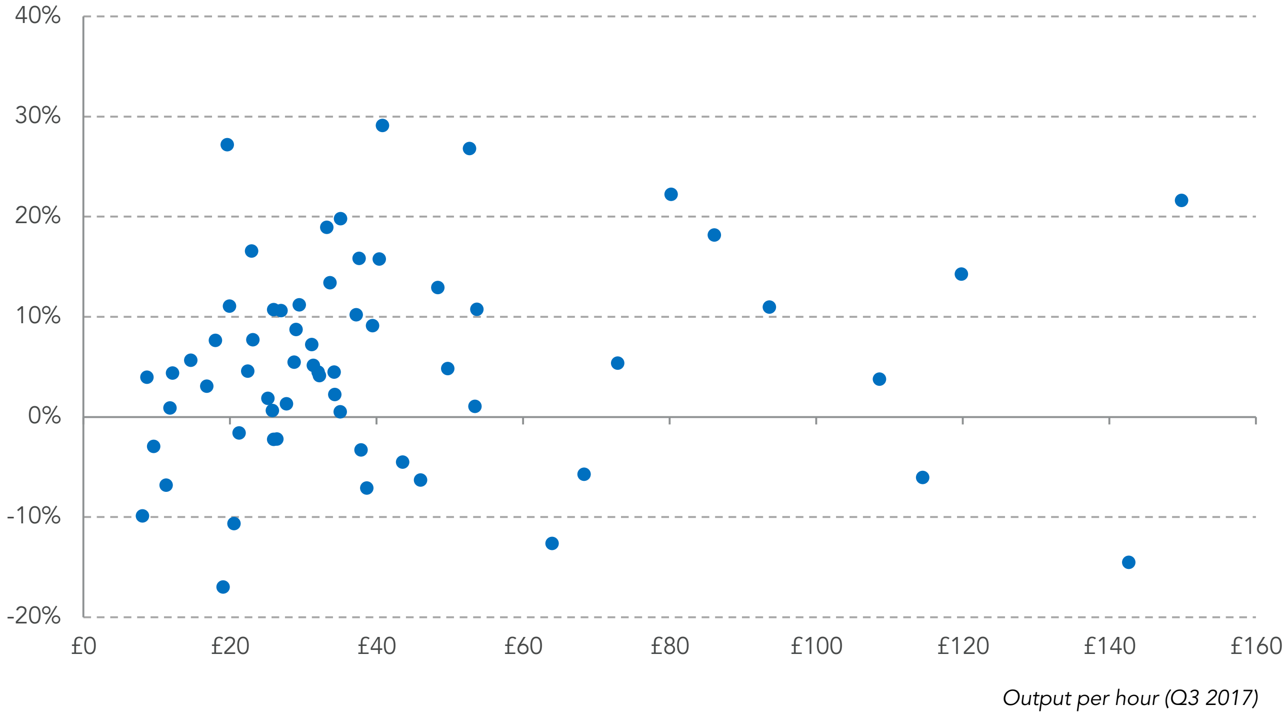
Following this logic would suggest that it is the places and industries that are most affected by the NLW that have the most to gain from raising productivity. However, data allowing us to examine productivity at a level below regional data is published with a time lag. As such, more granular evidence of any such developments is not yet available.

For now, we can assess whether the lowest-paying industries have increased productivity since April 2016, using quarterly data on output per hour. Despite the encouragement a higher minimum wage may be providing, there appears little evidence that the introduction of the NLW has led to any sort of uptick in productivity to date. As Figure 7 shows, low-productivity industries (towards the left-hand side of the chart) have been no more likely to increase output per hour than high-productivity sectors.

[4] R Riley and C R Bondibene, "*Raising the standard: Minimum wages and firm productivity*", NIESR Discussion Paper no. 449, May 2015

Figure 7: The NLW hasn't yet provided a spark to low-productivity sectors

Change in output per hour, Q1 2016-Q3 2017: UK



Source: RF analysis of ONS, *Labour Productivity by Industry Division*

As discussed in reference to changes in employment, it may be that even though the low-productivity sectors have improved at a slower pace than others, the gap between the two has narrowed since the NLW's introduction. But using a difference-in-differences approach, through which we can analyse the path of productivity growth after the NLW's introduction with reference to its trajectory going back a number of years, there is still little evidence of an improved performance in these low-paying sectors.

There are several reasons why this may be the case. First, it could simply be that not enough time has yet passed. It may be that an analysis carried out further into the NLW's lifespan will reveal more evidence of an impact. Another theory is that for most firms, the NLW does not yet represent a significant increase in their wage bill and that, rather than requiring sweeping changes to survive, the ongoing process of improving working practices continues at much the same pace as before.

A more pessimistic view taken by some economists, notably Robert Gordon, is that much of the low-hanging fruit of productivity gains has already been picked, especially in sectors like hospitality or social care which are labour intensive, with few opportunities for meaningful technological progress. The UK's terrible productivity growth since the financial crisis may well lend some credence to this claim, although our relative underperformance compared to other countries does not. The timing of the EU referendum and uncertainty around the UK's future migration regime is another factor to be considered. It makes interpretations of these trends harder in general, but is especially true in low-paying sectors where the potential for lower migration from the EU, and therefore a small pool of labour to draw, should be pushing firms to invest to boost productivity.

That said, and as research by the IPPR has illustrated,[5] low-paying sectors in the UK remain significantly less productive than the same industries in other European countries. This suggests that more could be done. Initiatives like "Be The Business", which among other things offers an app aimed at businesses seeking to become more productive, or the work done by organisations like Enterprise Scotland in the food and drink industry in designing 'productivity plans' for firms keen to become more successful may point the way towards progress in these sectors.[6]

Price rises

Another way in which minimum wage increases can be offset is through price rises, passing at least some of the additional wage costs onto consumers. Research in the UK suggests that the NMW did increase prices in some low-paying sectors,[7] while analysis in the US focusing on the cost of dishes in restaurants has repeatedly found evidence of a link to minimum wages.[8]

Figure 8 takes four low-paying industries – accommodation services, restaurants and cafes, hairdressing and canteens – and compares the change in prices over recent years with the overall CPIH index. We investigate these industries on the basis that they are labour intensive and therefore likely to be sensitive to changing labour costs, as opposed to other low-paying industries within, say, the transport sector in which oil may be a more important determinant of prices.

Prices in both accommodation services and restaurants and cafes have clearly risen faster than the overall index over this period. Accommodation services shows a less linear pattern, with more sharp increases and drops than the other selected sectors. The NLW increases in April 2016 and 2017 do coincide with upticks in price inflation in accommodation. That said, a similar April 'spike' is also visible in 2014 and 2015, at a time when the NMW was rising in October.

[5] T Dolphin and I Hatfield, *The missing pieces: Solving the UK's productivity puzzle*, IPPR, August 2015

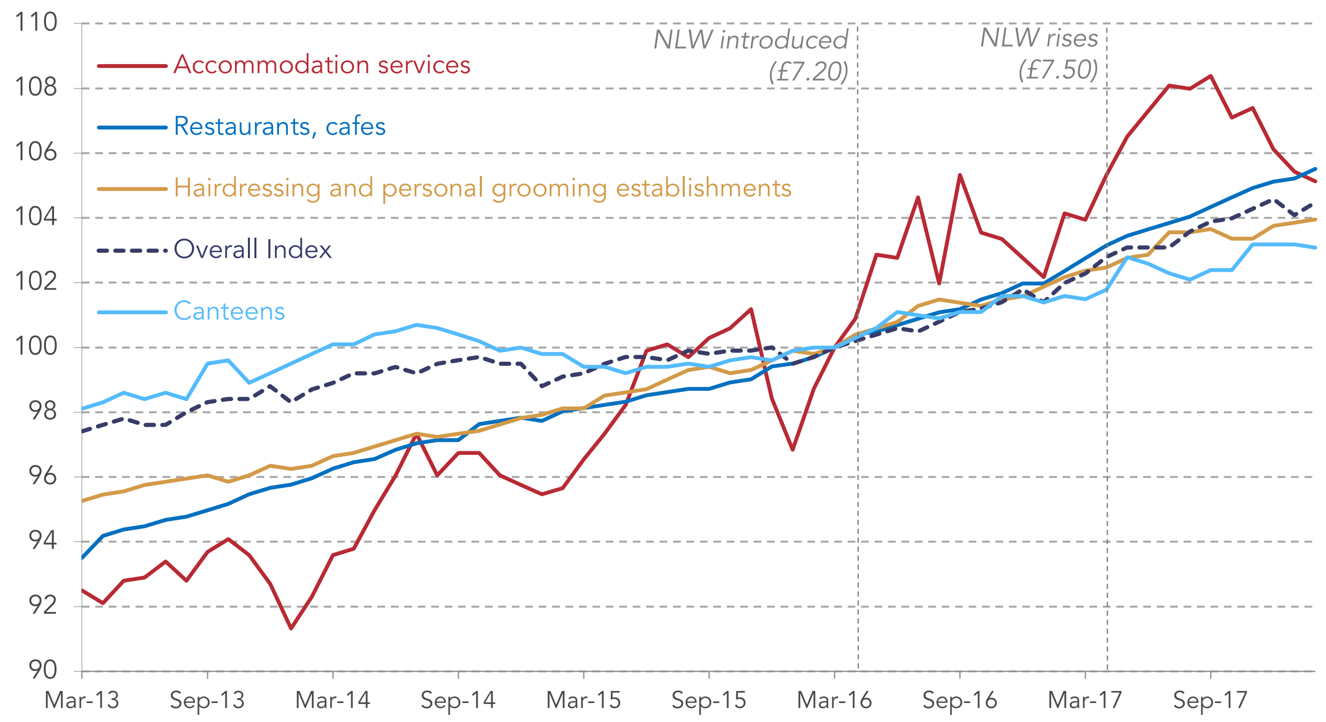
[6] For instance see http://www.foodanddrink.scot/media/77899/productivity-call-to-action-single-pages.pdf?Action=download

[7] J Wadsworth, "Did the National Minimum Wage Affect UK Prices?", *CEP Discussion Paper No 947*, August 2009

[8] For instance, a recent paper compares menus for restaurants before and after a minimum wage increase: S Allegretto and M Reich, "Are Local Minimum Wages Absorbed by Price Increases? Estimates from Internet-Based Restaurant Menus", *ILR Review* Vol. 71, Issue 1, pp.35-63, 2018

Figure 8: Prices have risen more quickly in some low-paying industries

Index of prices (CPIH) in selected low-paying industries, UK (March 2016=100)



Source: RF analysis of ONS, *Consumer price inflation, UK: February 2018*

In restaurants and cafes, prices have also risen faster than the overall index, but with little immediate evidence of an acceleration over and above that in total prices since the NLW's introduction. The increase in prices in hairdressing have outpaced overall inflation over this period but beginning in March 2016, the total CPIH increase is slightly higher than that in hairdressing. In canteens, price rises have, if anything, fallen further behind the overall inflation rate since April 2016.

This represents only an overview of price increases in a handful of sectors but suggests that in some parts of the hospitality industry, the NLW may have led to higher prices. The issue, however, is complicated by the timing, covering a period of deflation as well as the post-referendum spike. And as discussed above in relation to employment and productivity, it may be that price increases are spread out differently across the country.

Other options

The response requiring the least change to a company is to simply increase wages without any offsetting measure. In effect, this reduces the profits generated by the organisation. The data sources that allow researchers to address this question are published either at a high level – for instance, the ONS's series on profitability of companies only breaks industries down into 'manufacturing' and 'services' – or is less timely – the *Annual Business Survey* and *Annual Respondents Database* only recently released data for 2016. This is a question the Resolution Foundation will explore in future work.

An inability to reduce profits or employment, or raise prices, could lead to an increase in businesses closures. In 2016, the rate of business 'deaths' across the whole economy was 11.6 per cent, up from 10.5 per cent in 2015, an increase of 10 per cent. The rate of deaths also increased by 10 per cent in accommodation and food services (from 12.4 per cent to 13.7 per cent) with a 4 per cent rise in retail (10.1 per cent to 10.5 per cent), with births exceeding deaths in both. The highest proportion of deaths was in finance and insurance in which 17 per cent of firms died in 2016, up from 13.3 per cent in 2015. Businesses in low-paying industries, then, do not appear to be closing at a more rapid rate than in the past or than in other higher-paying sectors.

Conclusion

The NLW represents a significant change for the UK's labour market (although, and as discussed in Box 3, the UK is far from the only country exploring new terrain for minimum wages). Despite this rapid shift, it appears that UK employees have received a pay rise without noticeable offsetting effects to date. The next section lays out the fall in low pay that has already occurred, and projects ahead to 2020, with further decreases expected.

Of course, the positive developments to date represent only the early days of this policy. With the NLW marking a permanent move away from very low pay, it may be that the responses made by firms take years to develop and become visible. It is for that reason that policymakers should be encouraged but not become complacent. The fact that firms have appear to have successfully implemented the NLW so far is no guarantee that the future increase will simply be absorbed. Instead, government – centrally, as well as at more local levels – should be seeking opportunities to assist firms in moving away from a low-pay, low-productivity model.

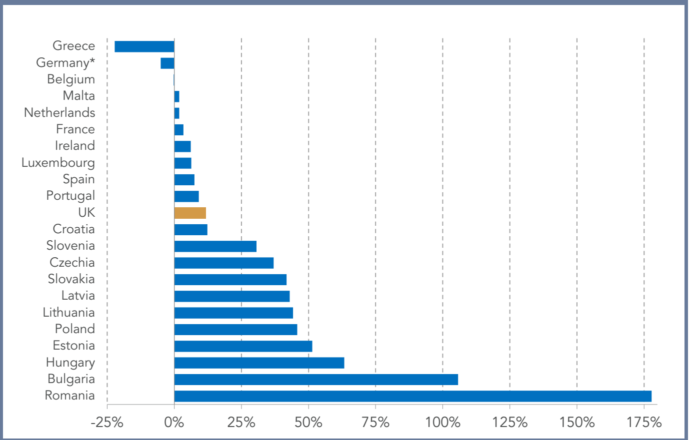
Box 3: Minimum wage developments around the world

The UK is far from the only place in which minimum wage increases are being implemented and carefully scrutinised. As Figure 9 shows, over the past eight years the increase in the UK minimum wage has been faster than in many other European countries. Compared to parts of eastern Europe, however, the increases appear almost pedestrian. From January 2017 to January 2018, the Romanian minimum wage rose by 50 per cent in real terms, dwarfing the otherwise huge 10 per cent increases in Bulgaria and Latvia.

Of course, many of these countries have experienced rapid economic growth, began with much lower minimum wages and still lag well behind the value of the UK minimum wage, even when considered in purchasing power parity (PPP) terms (that is, how much can you buy for a set wage). Nonetheless, it acts as a reminder that ambitious wage floor increases are not the sole preserve of the UK. Below, we examine two case studies of minimum wage increases and their impacts.

Figure 9: **Minimum wages have risen rapidly in much of eastern Europe in recent years**

Change in statutory minimum wages in real terms, Jan 2010-Jan 2018



Notes: Nominal minimum wage rates were converted to real terms by using the average annual HICP index. The figure for Germany refers to development since the introduction of statutory minimum wage in January 2015.

Source: Eurofound, *Statutory minimum wages in the EU – 2018: First findings*

Germany

Until 2015, Germany had been one of a dwindling minority of EU countries without a statutory minimum wage. But partially in response to rising pay inequality and weaker unions – collective bargaining coverage had fallen from over two-thirds of employees in the late 1990s to less than half by 2014 – a legal wage floor of €8.50 was introduced. This rose to €8.84 in 2017. Caution has been applied so far, with no increases in 2016 and 2018.

The evidence to date suggests that 'mini-jobs' – work that is usually low paid and only offers a few hours each week – declined, while more standard forms of employment increased.[1] Given the gap in economic performance and wages between east and west Germany, an important challenge for minimum wage-setters was to provide a meaningful floor in the west without harming employment in the east. Again, the initial evidence suggests this has been achieved; in fact, both mini-jobs and regular employment appear to have grown in east Germany since the minimum wage's introduction, while also boosting wages in the west.

[1] A Garloff, *Side effects of the introduction of the German minimum wage on employment and unemployment: Evidence from regional data – Update*, Federal Ministry for Economic Affairs and Energy, August 2017

Seattle

With the US federal minimum wage static at $7.25 since 2009, states and cities have increasingly taken the responsibility for raising wage floors into their own hands. Seattle has been at the forefront of these moves, transitioning from a $9.47 minimum wage in 2015 to at least $15 per hour for large employers in 2018. This steep increase spawned several studies. Two of the most high-profile of these came to different conclusions: one found that low-wage employment had decreased[2] while the other suggested there had been no effect on jobs.[3] While the former study had access to better data on those affected, doubts were raised about the methodology used and the interpretation of the results. Sweeping claims on the policy's effect therefore seem misplaced. The policy's trajectory continues until 2021, when $15 finally applies to small employers that contribute to medical benefits. For larger firms, CPI for the Seattle-Tacoma area will be used to protect the real-terms value of the rate from 2019 onwards. This approach differs from the UK, where post-2020 the NLW will rise in line with median earnings. As a result, while the Seattle minimum wage will ensure low earners are shielded from inflation, it may mean the gap between those at the bottom and higher earners widens, assuming wages further up the distribution outpace inflation.

[2] E Jardim, "*Minimum wage increases, wages, and low-wage employment: Evidence from Seattle*", NBER, June 2017

[3] M Reich, S Allegretto and A Godoey, *Seattle's Minimum Wage Experience 2015-16*, Centre on Wage and Employment Dynamics, June 2017

Section 3

Low pay in 2017 and beyond

After two decades of stability, 2016 marked the beginning of a new era for low pay, with a welcome decrease in the share of workers that were low paid. 2017 continued that trend, with the proportion of employees falling below the low pay threshold (two-thirds of the median hourly wage) dropping to 18 per cent. While still above the rates reached by many other countries, this is nonetheless the lowest proportion of employees that are low paid since 1982. The share of employees paid less than the voluntary Living Wage dropped too, from 24 per cent in 2016 to 23 per cent in 2017.

Contrary to expectations, the proportion of employees paid at or near one of the minimum wage rates remained flat. Though the bottom end of the labour market remains much more compressed than a few years ago, it does suggest that pay differentials are being maintained to some extent. And this overall figure masks much variation: 26 per cent of employees in hospitality and 12 per cent of those on temporary contracts earning at the wage floor, in contrast to just 4 per cent in London.

As used in public debate, the term 'low pay' is loosely defined. To allow us to measure and track change over time, this report uses three distinct measures of low pay (explained in Box 1 on p.10): less than two-thirds of the median hourly wage; less than the Living Wage rates; and less than, at or up to 1 per cent above the minimum wage. These different measures allow us to capture trends in low pay, identify change within the low-paid population and to project forward to estimate how the risk of being low paid is likely to vary in future. The data comes from ASHE which is collected in April each year, with April 2017 being the most recent data available.

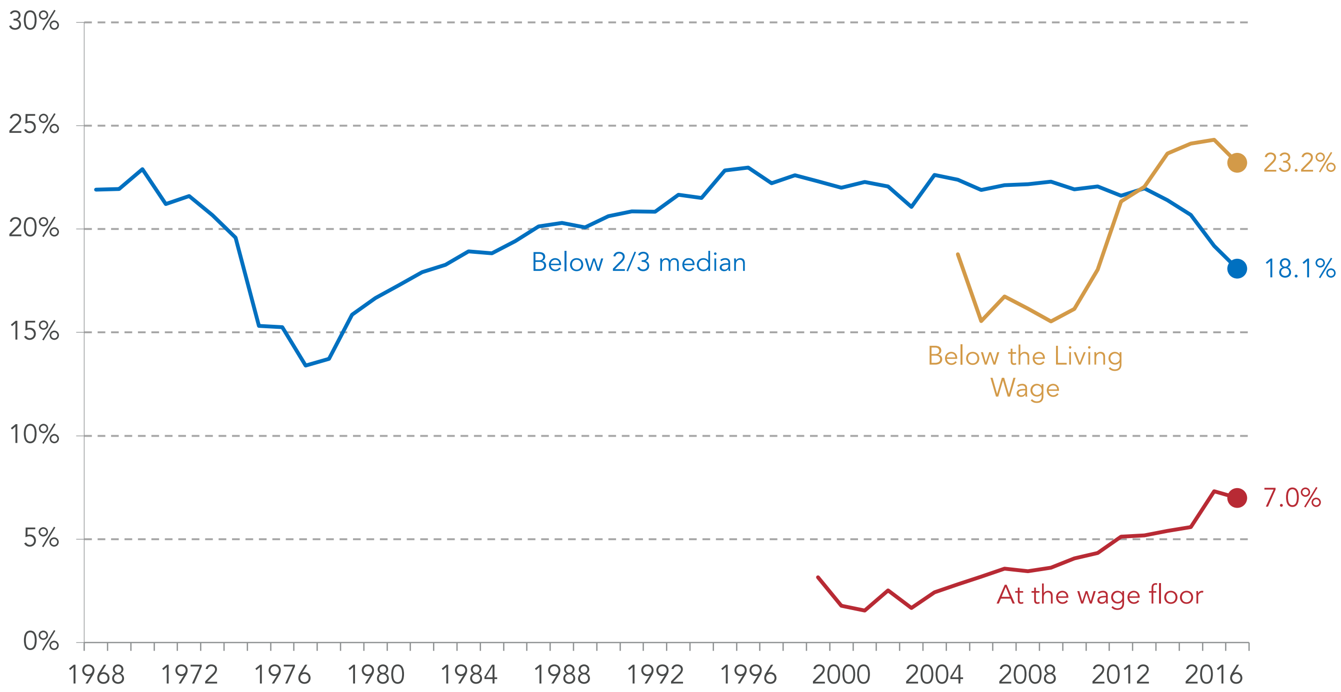
The NLW continues to drive down the numbers in low pay

As discussed in Section 1, the year-on-year increase in the minimum wage was much larger in 2016 than in 2017. It is unsurprising, therefore, that the precipitous decline of low pay in 2016 – the steepest in 40 years – has not quite been matched in 2017. Nonetheless, and as Figure 10 indicates, the share of employees that are low paid declined from 19.2 per cent to 18.1 per cent. This is the lowest proportion of employees that have been in low pay since 1982 and represents a drop from 5.1 million to 4.9 million workers.[9] Though this remains well above the levels of low pay achieved in many advanced economies, it represents genuine progress over a short period of time and the first time the number of employees in low pay has fallen below 5 million since 2003.

[9] Section 8 provides more detail on a range of characteristics of low pay.

Figure 10: The proportion of employees in low pay has fallen to its lowest level since 1982

Proportion of all employees below selected low pay thresholds: 1968-2017, GB



Source: RF analysis of DWP, *Family Expenditure Survey; ONS, New Earnings Survey Panel Data (NESPD); ONS, ASHE*

While this broad pattern of declining low pay is shared across most kinds of workers, there remains much variation. The overall fall from 19.2 per cent to 18.1 per cent was a decline of nearly 6 per cent. Looking across Great Britain, the reduction in low pay was largest in Scotland, with a 13 per cent drop across the nation and a 17 per cent drop in Glasgow alone. The proportion of people in low-paid work in Bristol also fell by 13 per cent. But such falls were not universal. In Nottingham, the proportion of employees in low pay *rose* by 4 per cent to 23.9 per cent, the highest of the city regions we consider in this report.[10] A 1 per cent increase (from 22.6 per cent to 22.9 per cent) was also visible in the Tees Valley. This pattern suggests that, so far, it is cities with relatively low proportions of low-paid employees that are experiencing the biggest declines.

Turning next to industries, the trend was more varied. In the two largest low-paying industries, wholesale and retail (26 per cent of all low paid workers) and accommodation and food services (19 per cent of all), the share of low-paid workers fell. But in a handful of sectors, the share of employees in low pay increased. While this included information and communication, in which just 5.5 per cent of employees are low paid, low pay also rose in agriculture (up to 30.8 per cent) and construction (up to 11 per cent).

2017 played out differently across the age range too. Larger-than-average falls were apparent for women in their early 40s and men in their early 30s (both down 11 per cent). Although employers are not legally obliged to pay them the NLW, those aged 16-24 have benefitted too, as employers opt not to use age-related rates for every employee. While still the most likely to be low paid, 120,000 fewer 16-24 year olds were low paid in 2017 than a year previously.

[10] For details on the definitions of the city regions used in this report, please refer to the annex.

One surprise in 2016 was that, despite the plunge in the numbers of employees in low pay, more people than ever earned less than the Living Wage. In a welcome change, 2017 brought a fall on this measure too, from 24.3 per cent to 23.2 per cent. Again, this drop – equal to 5 per cent – was not shared equally across all types of workers and parts of Great Britain. The share of workers paid below the Living Wage in the East of England, among those aged 21-24 and 41-45, in wholesale and retail and in the largest firms (5,000 employees or more) fell by more than the overall average.

Low pay in 2020

April 2018 brought the third of a planned five hikes in the NLW. By 2020, the government intends for the NLW to be equal to 60 per cent of median hourly earnings for those aged 25 and over. The LPC, which advises the government on the minimum wage rates, has recommended a straight line path to reach this 'bite' of 60 per cent, moving from an estimated 58 per cent in October 2018, to 59 per cent in October 2019 and 60 per cent in October 2020.

As a result, low pay is on course to fall to 15.4 per cent in 2020. While a major improvement on today, this still means that approximately 4.2 million people will be low paid. As the NLW reaches its target, these exact proportions will depend upon where exactly in the distribution the low pay threshold lands. This could lead to volatility in the low pay landscape from year to year, especially if the low pay threshold is very close to the NLW. In years in which the low pay threshold is below the NLW, it may essentially describe those aged 24 and under who are paid below the NLW.

While still a useful metric, these factors may mean that for those interested in understanding and, crucially, improving low-paid work, our other measures – the proportion paid at the wage floor or below the Living Wage – become more relevant over time.

Compression at the low end of the labour market remains a known-unknown

Looking ahead to further NLW increases, one of the anxieties most frequently expressed by affected firms is the issue of differentials. As well as ensuring that every employee earns at least the minimum wage, organisations also need to consider how they manage the gaps between their lowest-paid staff and those on slightly higher wages. In previous Resolution Foundation research, some firms described maintaining differentials at their pre-NLW levels as unaffordable. But others explained that due to recruitment and retention difficulties, much, if not all of, the gaps between minimum wage earners and those on the next rung up the pay ladder would remain.[11]

When projecting forward from year to year, our approach includes some 'spillover effects'.[12] This means that employees paid slightly above the NLW and not legally due a pay increase are nonetheless assumed to receive an added rise, over and above average wage growth. This, in effect, acknowledges that differentials will be maintained to some extent.

While we follow a commonly-used technique in the literature on minimum wages, this is, of course, uncertain. Our approach approximates the pattern observed in the past, but it is impossible to perfectly model how firms will respond. But, while we factor in some spillover effects, we still expect a rising wage floor to directly impact a growing number of people as its 'bite' increases. In short, we expect the share of workers paid at or very close to the wage floor to rise over time.

[11] C D'Arcy, *Industrial strategies: Exploring responses to the National Living Wage in low-paying industries,* Low Pay Commission/Resolution Foundation, December 2016

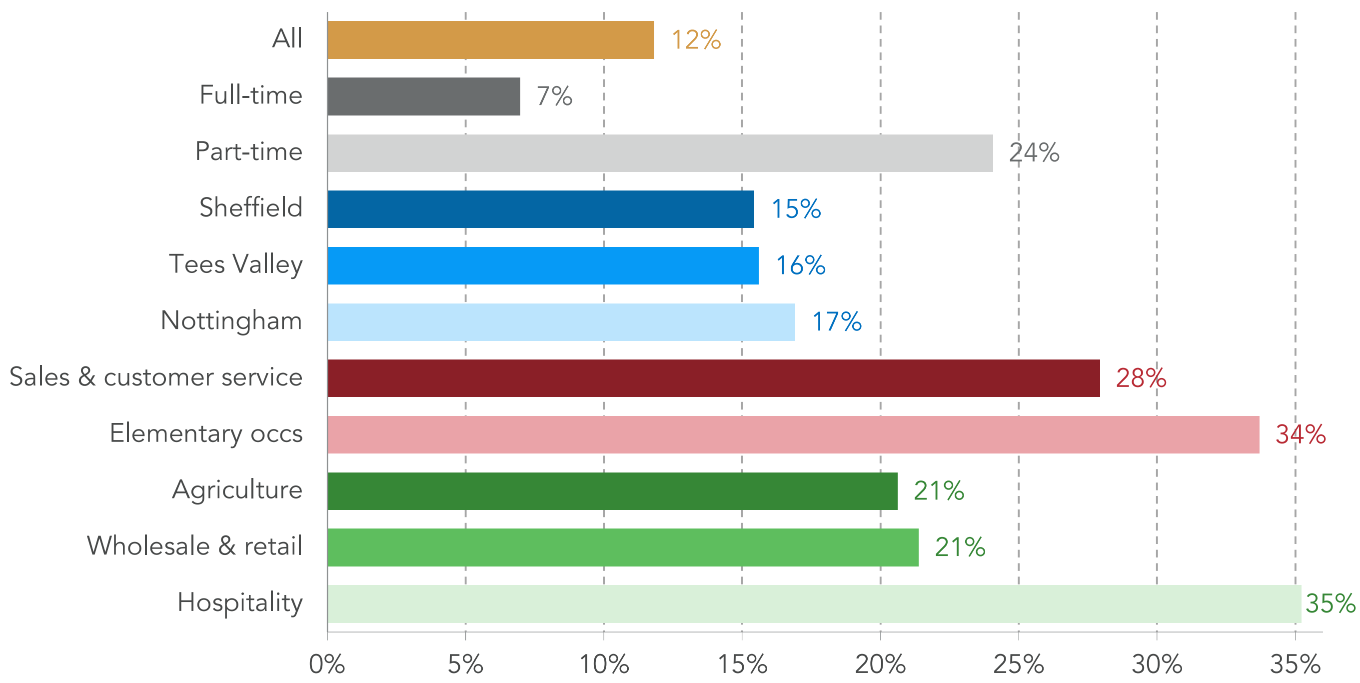
[12] Further detail on how the analysis presented here applies a spillover effect can be found in the annex of this report.

That assumption, however, did not prove to be the case in 2017. The share of workers paid at the wage floor in 2017 was virtually unchanged from 2016 (7 per cent in 2017 compared to 7.3 per cent in 2016). This does not appear to be explained solely by employers choosing to pay younger employees at the 25+ rate. Among those aged 16-20, the proportion paid at the wage floor rose marginally. Falls in coverage were visible for those aged 21-24, but the decline was in evidence across the age spectrum. It may be, as highlighted by the Bank of England's Agents' report, that recruitment difficulties are forcing firms to pay above the minimum wage to attract workers.[13] The actions taken by some firms, including high-profile employers like Sainsbury's, seeking to boost their basic hourly rate while cutting bonus payments like overtime or shift premia, may also explain why compression has been less than expected.

On the surface, this is encouraging. One of the concerns highlighted by proponents of the NLW is that it would lead to fewer opportunities to move into better-paying work over time. This is an important question and one we turn to in the next section. Developments in 2017 clearly do not mean that questions over the difficulties posed by narrowing differentials have disappeared. Coverage already varies widely. More than one-quarter of employees in hospitality (26 per cent) and 12 per cent of those on temporary contracts are paid at the wage floor, in contrast to just 4 per cent in London. Combined with elevated vacancy ratios in many sectors – the number of vacant roles for every 100 employees – this suggests are increasingly facing a balancing act of keeping a cap on wage growth while attracting and retaining employees.

Figure 11: A growing share of employees are expected to be paid at the wage floor

Proportion of employees projected to be paid at the wage floor in 2020 by characteristics



Source: RF analysis of ONS, *ASHE*

[13] Bank of England, *Agents' summary of business conditions:* February 2018 Update, February 2018

While the exact impacts remain to be seen, Figure 11 makes clear how the question of compression is only likely to grow in importance. In some corners of the economy, as many as one in three workers are projected to be earning the minimum wage by 2020 with around one in six employees in cities like Nottingham, Tees Valley and Sheffield set to be paid at the wage floor.

The evidence presented so far makes clear that a high minimum wage can reduce but not eliminate low pay. It has also highlighted some of the new frontiers that policymakers concerned about low pay should be grappling with. The next section deals with perhaps the most pressing question: what will a high minimum wage and a more compressed labour market mean for progression?

Section 4

Making progress?

Despite the pause in 2017 explored in the previous section, the growing share of workers paid at the wage floor has elevated concerns about the opportunities to progress. With just one in six employees escaping low pay over a decade, some have argued that a rising minimum wage will only serve to reduce the incentive for workers to progress. While wages are far from the only factor people consider when weighing up progression opportunities, they clearly matter a great deal. But an often under-examined element of the progression equation is the routes people actually take out of low-paying roles.

Taking one of the most common jobs among the minimum wage earners – sales and retail assistants – we track the routes these workers take over five-year periods. First, the analysis finds that many stayed put: close to half of those who were sales assistants in 2011 remained in the same occupation in 2016, with that proportion relatively stable over time. Second, those that switched occupation did receive greater pay increases than those who remained as sales assistants. Third, few managed to do so within retail: only 4 per cent of sales assistants in 2011 had moved into supervisory or managerial positions in the sector five years later. Viewed from the other direction, only 1 in 10 such managers worked as sales assistants five years earlier. This suggests more could be done to facilitate upward moves for low earners, even in relatively dynamic sectors like retail.

The view of low pay offered in Section 3 is one of snapshots, albeit in a series stretching back to 1968 and projecting forward to 2020. But static pictures of how many low earners there are do not capture the lives of people in such jobs. A more dynamic and individual perspective is vital for several reasons. First, if low-paid work was temporary for most people, with lots of churn into and out of better-paying roles, it may be less of a concern for families and policymakers. Second, while we know that low pay is not evenly distributed across, for instance, women and men, insight into who moves onto higher wages over time, and who doesn't, is key to understanding what is likely to help more people to earn more and who needs greater support.

Progression out of low-paid work is an issue previous Resolution Foundation reports have addressed. While the results vary depending on the data explored, our most recent analysis finds that only one in six workers who were low paid in 2006 had moved onto consistently higher wages by 2016.[14] This analysis tells us much about the prospects offered by low-paid jobs. For example, employees in accommodation and food services are less likely to escape low pay (even when controlling for characteristics like sex, age, region or nation worked in and the number of hours worked). It also highlights the importance of changing occupation: two-thirds of those who were stuck in 2016 had stayed in the same occupational group over the past decade.

But these high-level statistics can sometimes feel detached from the way people and firms think about jobs and career routes. It doesn't reveal the options a low-paid worker in a specific job considers as being available to them, or the increase in pay that can be expected. And considering inequalities in terms of who progresses, it says little about how the opportunities available to different kinds of people in the same job vary. This, of course, matters greatly to those interested in encouraging progression for a broader mix of workers, and for those concerned that a higher minimum wage may dissuade people from seeking out such roles.

[14] C D'Arcy and D Finch, *The Great Escape?: Low pay and progression the UK's labour market*, Resolution Foundation/Social Mobility Commission, October 2017

It should also draw the attention of firms. Many are committed to making their companies fairer places to work. As Section 5 will discuss in more depth; for example, the government's gender pay gap reporting requirements have led more organisations to delve into the structures of their workforce to understand why these gulfs between the pay of men and women exist.

But wider developments should also be raising these questions up the agenda for companies. A tight labour market and question marks over the future migration regime both mean that understanding how low earners move through their careers, and where talent is getting stuck, could be vital to ensuring recruitment and retention problems do not deepen.

The career routes of sales assistants

To explore this complex issue, we focus on one group of workers: sales assistants. As of April 2017, there were 1.2 million workers in this category, with a median wage within the group of just under £8 per hour. While some sales assistants may be on higher wages, this suggests that more than half fell below the low pay threshold, making them a large, low-earning group working in a generally low-paying sector (retail) and, therefore, ideal for exploring this question.

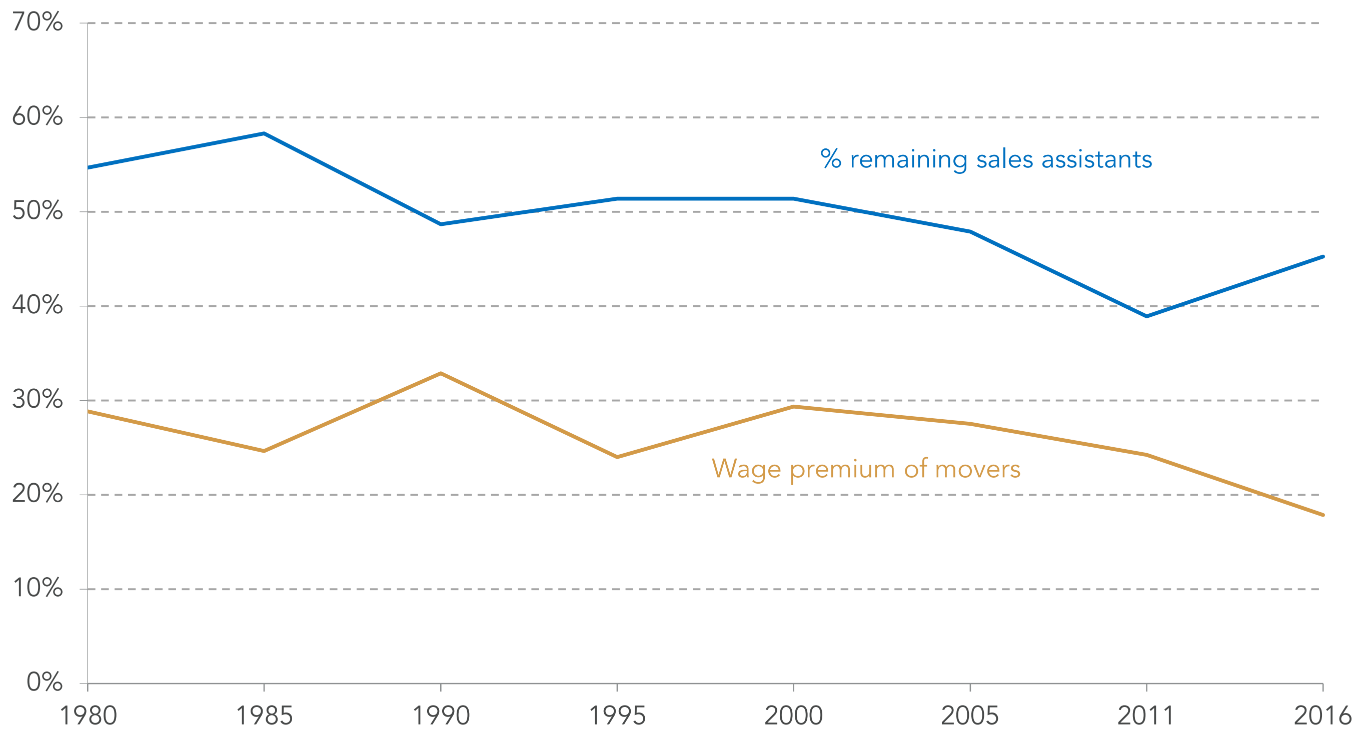
To understand their career routes, and how this has varied over time, we use panel data. This allows us to track the same people over a number of years. One shortcoming of this data, however, is that it only records people when they are employees. Those who moved into self-employment, became unemployed or economically inactive do not feature. As such, the analysis below is not presented as a complete portrait of what happens to sales assistants. Nonetheless, it provides a useful insight into the paths taken by many.

Our approach identifies sales assistants in a given year, beginning with 1975. We then highlight those who are still present in the data five years later, giving us information on their occupation and their wage. The blue line in Figure 12 illustrates that, over time, the share of sales assistants remaining in the occupation has varied. The proportion of 'stayers' reached its peak in 1985, when 58 per cent of those who were sales assistants in 1980 were still in the same occupation five years later.[15] While changes in the way occupations are classified and the structure of the economy – how many sales assistant roles exist has varied over time as has the strength of the labour market – mean variations from one decade to another should not be overinterpreted, Figure 12 does suggest that the proportion of 'stayers' has dropped somewhat in recent years, to 45 per cent as of 2016.

[15] This figure includes both those remaining in the same job and those who moved to different organisations but were still classed as sales assistants.

Figure 12: Half of sales assistants remain in the same type of job

Occupational and wage change of employees who were sales assistants 5 years earlier: GB



Notes: The wage premium of movers is defined as the median earnings five years later of those who changed occupations, divided by the median earnings of those who remained as sales assistants. Because the data used in this analysis – the New Earnings Survey Panel Dataset and the ASHE panel – stretch back to 1975, the occupational coding systems used have varied over time. Due to this and changes in the nature of such roles, there are discontinuities in the data. Given the size of the group and the large proportions of workers classified in the same 4-digit occupational group five years, however, these are treated as sufficiently stable for the purposes of this analysis with the group referred to as "sales assistants" throughout. For reference, the codes used in each year are: NES 240 (1975-1990); SOC90 720 (1995-2000); SOC00 and SOC10 7111 (2005-2016).

Source: RF analysis of ONS, *NESPD* and ONS, *ASHE*

An important question raised in Section 2 was whether a higher minimum wage might reduce the gains on offer for low-paid employees, like sales assistants, who move into more senior roles. The gold line in Figure 12 confirms that 'movers' into other occupations do receive a pay rise compared to 'stayers' who remained as sales assistants. Taking the most recent period, despite almost identical wages in 2011, those who moved into other occupations typically earned £9.25 per hour compared to £7.85 for 'stayers', a premium of 18 per cent. More surprising, however, is the fact that this premium is lower in 2016 than at any point in the years examined, and well below the 33 per cent of 1985. This finding aligns with other Resolution Foundation research that returns to switching job, including in low-paying sectors, had fallen since the 1990s.[16] Even with generally weak pay growth combined with minimum wage rises, it is nonetheless striking that sales assistants are now more likely than in the past to be 'movers' than 'stayers', but the wage increase it brings is smaller.

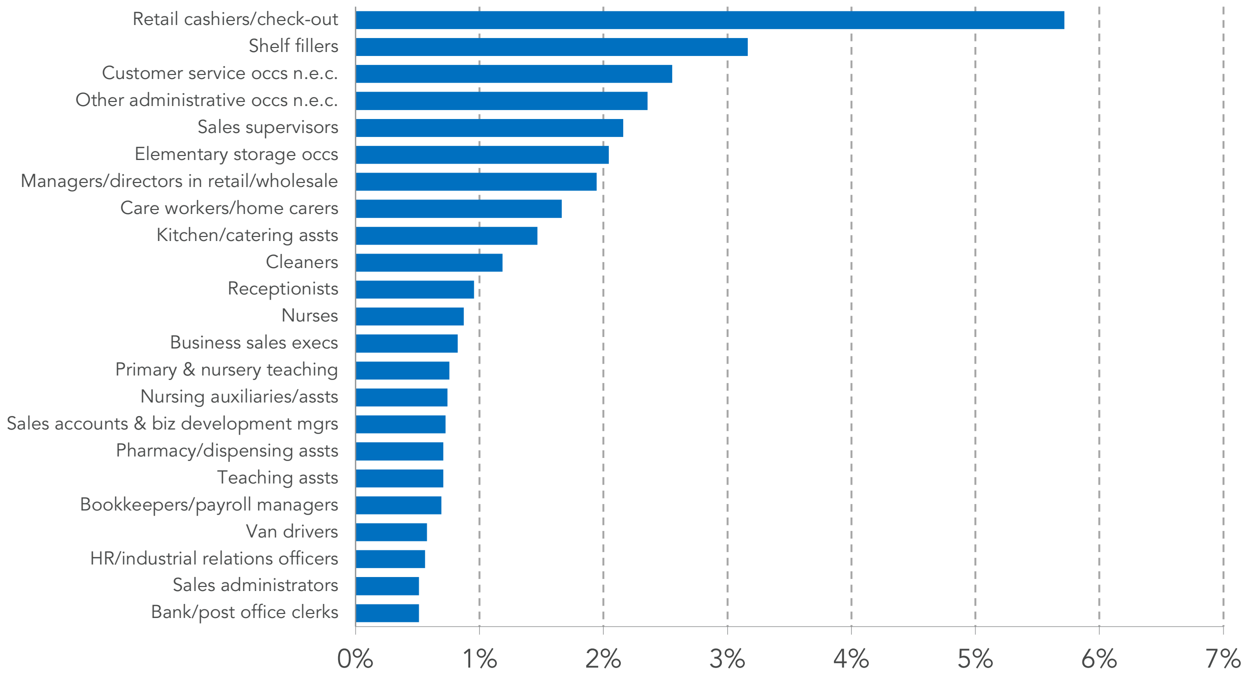
To help understand this, we can explore which occupations those who were sales assistants in 2011 had moved into by 2016. As Figure 13 shows, the 45 per cent who stayed comprise by far the largest single group. Moving into other similar wholesale and retail occupations also occurred, with 6 per cent becoming cashiers and 3 per cent classed as shelf fillers. While these may be similar sounding roles, the typical wages earned by people filling them do vary. Across all employees in 2017 i.e. not restricting our analysis to those who switched from being sales assistants, shelf

[16] S Clarke and C D'Arcy, *The Kids Aren't Alright: A new approach to tackle the challenges faced by youngpeople in the UK labour market*, Resolution Foundation, February 2018

fillers earned 20p more per hour than sales assistants, with cashiers earning 50p more than sales assistants. The size of these gaps have varied over the years. In 2011, the median shelf filler earned £8.45, compared to £6.55 for the median sales assistant. The reverse has happened with cashiers, with the gap rising from 20p in 2011.

Figure 13: Sales assistants who did move switched to a variety of occupations

Occupations in 2016 of those who were sales assistants in 2011



Notes: The 45 per cent who remained as sales assistants are not included in this chart. N.e.c. stands for not elsewhere classified.

Source: RF analysis of ONS, *NESPD* and ONS, *ASHE*

While the extent to which positions like shelf filler and retail cashier are viewed as progression will vary from person to person and business to business, Figure 13 does include two relatively common roles which are more likely to indicate enhanced responsibilities: sales supervisors and managers and directors in wholesale and retail, typically paid £9.60 and £12.40 per hour in 2017, respectively. There is little evidence that the differentials between these occupations and sales assistants have narrowed of late. For example, in 2011 the typical sales supervisor earned 25 per cent more than the typical sales assistant while in 2017, that was 21 per cent. Despite the potential pay increase, only 4 per cent of sales assistants had moved into these roles five years later, suggesting this is not a common route for progression in retail.

Examining the background of such supervisors and managers appears to confirm this, with only 10 per cent having been sales assistants five years earlier. This focus on retail overlooks the moves out of the sector and into better-paying jobs that *do* occur – some of which will be discussed in more depth below. It is nevertheless clear that, even for movers, meaningful pay and career progression is far from assured.

The roles men and women move into are similar but differ in some key respects

As is well-documented, progression out of low pay is less common among women than men. A major factor in this is the nature of part-time work. Four-in-ten women work part time, compared to just over one in ten men. That matters because more than one in three part-time roles (36 per cent) were low paid in 2017, with the majority of all low-paid positions part time. If we want to boost progression opportunities, then understanding how it varies by sex and working status is clearly crucial. We can again turn to the example of sales assistants in order to dig deeper.

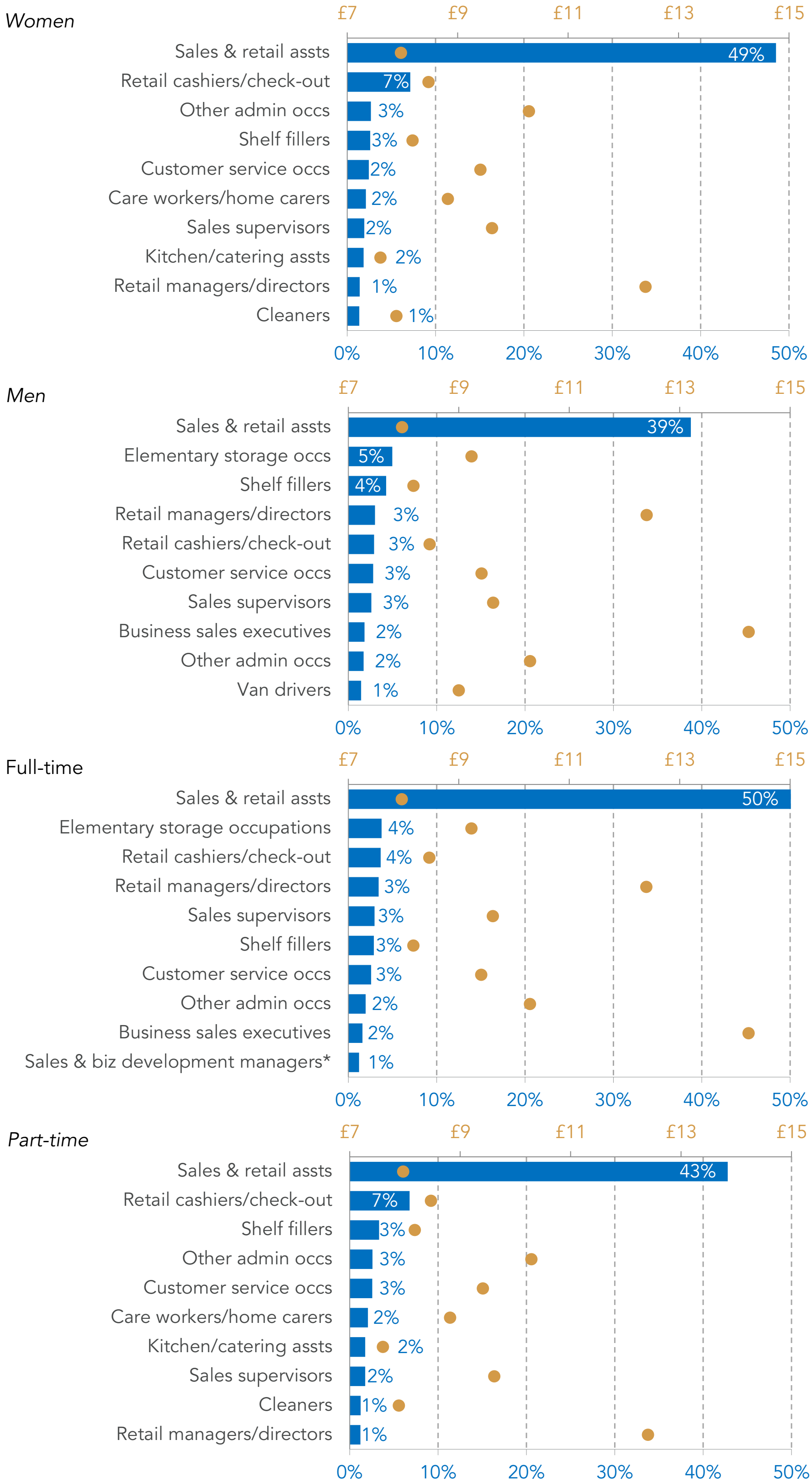
Figure 14 highlights the 10 most common occupations that sales assistants in 2011 had moved into by 2016, and provides a break down by sex and by full time/part time status. While there are many similarities between the occupations male and female sales assistants move into, two important differences are visible.

First, women (49 per cent) were more likely to be stayers than men (39 per cent). Numerous factors are likely to underlie this. The entire sales assistant population is comprised of 69 per cent part-time roles and 31 per cent full-time roles. Given mothers often bear the majority of the childcare responsibilities and may require part-time or flexible hours, a sales assistant position may be one of the few options available. For example, among those in elementary storage occupations – one of those most common for men to move into but not for women – just 15 per cent are part time.

Second, and less immediately discernible, is the pay of the occupations men and women move into: 18 per cent of men moved into occupations in which the median wage is £9 per hour or higher, while for women the corresponding figure was just 8 per cent. Of course, those moving upwards out of sales assistant positions may not immediately receive the median wage in their new occupation. Nevertheless, this distribution suggests that men are more likely to be moving into the kinds of jobs that offer genuine opportunities to increase earnings. More generally, the occupations into which sales assistants – both male and female – move tend to return higher median pay levels than those recorded by sales assistants. Not always though: 3 per cent of women shift into cleaning or kitchen assistant roles, both of which pay less than sales assistants. This may again link back to the difficulty of finding work that allows mothers in particular to balance work and life commitments, and the dearth of good quality part-time work.

Figure 14: Male sales assistants are more likely to switch occupations, and into better-paid roles

Occupations in 2016 of those who were sales assistants in 2011 and median wages in those occupations



Source: RF analysis of ONS, *NESPD* and ONS, *ASHE*

Turning to the patterns described by those working as full-time and part-time sales assistants in 2011 – irrespective of whether they are full or part time in 2016 – we can again draw two key conclusions. First, and somewhat surprisingly, we see that those working full-time were less likely to be movers than part-timers: half (50 per cent) of full-timers stayed as sales assistants, compared to 43 per cent of part-timers. One potential explanation of this may be the changing composition of the group; part-timers were more likely to exit the data than full-timers, meaning those part-timers who remain in the data may be more tightly attached to their job.

Second, median pay rates recorded in the occupations into which full-time and part-time employees moved varied somewhat. While no full-timers moved into occupations that are lower-paying than sales assistant, 3 per cent of part-timers did. More strikingly, 6 per cent of full-times moved into occupations that typically pay close to or above the median wage for all workers (with 1 per cent going on to become sales account and business development managers, which has a median wage of £21.55) In contrast, just 1 per cent of part-timers moved into occupations with median pay rates at or above the overall median.

Age, of course, plays an important role too. While it could be argued that the ‘stepping stone’ nature of low-paid work is of most benefit to younger workers, with decades ahead of them in the labour market, this effectively dismisses the other half of those who were sales assistants in 2016 – those aged 35-65. And given the challenges facing mothers returning to the labour market after having children, many of whom will fit into this older age bracket, giving serious attention to the routes taken by all workers regardless of age seems sensible.

To explore the extent to which routes vary by age, we divide people who were sales assistants in 2011 into three groups, based on their age in 2016: those aged under 35; 35-49 year-olds; and 50-65 year-olds. Perhaps unsurprisingly, members of the youngest group are less likely to still be sales assistants in 2016 (just 27 per cent), compared to the middle group (56 per cent) and the older group (64 per cent). However, the most-common occupations that younger workers move into are not dissimilar from the overall picture presented above. Customer service occupations, other administrative occupations and retail cashiers and check-out operators are the three most common occupations. For the most part, these are within retail and do not typically represent much progress in terms of pay.

That said, nurses and primary and nursery education teaching professionals – two roles that offer higher typical wages and, often, more established career routes – are among the top 10 roles that younger people move into, and feature less prominently for older groups. The occupations that older people move into are fewer in number overall, with little difference from the most popular occupations set out in Figure 13 and Figure 14.

In choosing one occupation and primarily focusing on the most recent five years, the analysis presented in this section offers only one insight into progression. Nor is it intended to suggest that sales assistants have fewer opportunities than workers in other sectors. But the size of the group means much can be learned from the paths taken by sales assistants.

First, progression *does* appear to be a reality for some people. Moves into better-paying roles within retail or in other sectors do occur, particularly for men and younger people. And on average, changing occupations still brings pay rewards, despite the fact these have dwindled in scale in recent years. Wage floor increases associated with the National Minimum Wage do not appear to have killed movement among sales assistants, or to have erased the premium from switching jobs.

But second, it's clear that the opportunities to progress are not shared equally. Women are more likely to stay in sales assistant roles and when they do move are more likely to find themselves in low-paying positions than men. Older people are also much less likely to switch jobs or move into better-paid occupations than younger colleagues.

The issues underlying these inequalities cannot be solved overnight. Gender inequality and perceptions about older people are deeply embedded within society. But these are questions that many retailers are already engaging with. In the case of John Lewis and B&Q, this has been spurred on by Timewise, an organisation that has made the case for better-quality part-time jobs. A first step that all employers can take, however, is reviewing who progresses within their organisations, who doesn't, and the opportunities available to them. Leadership from firms is crucial on this issue. This is especially true for large firms, given the power they wield at the lower end of the labour market, as the next section discusses.

Section 5

Are we concentrating?

Despite comprising only a tiny minority of all firms, very large companies employ more than one-quarter of low-paid people. The power that such organisations wield, and the consequences that has for wage growth, is an issue receiving more and more attention. But to date, there has been too little analysis of how widespread the problem of monopsony may be, or which areas might be most affected.

Across Britain, low-paid workers are more likely than mid- and high-paid employees to find themselves concentrated in just a handful of firms, with low-paid employees 80 per cent more concentrated than high-paid employees. In some industries (retail) and cities (Nottingham), that concentration is much higher than average. This suggests that a small group of companies hold huge influence over the low-paid workforce, with potential consequences for their pay, terms and conditions. While the NLW is currently driving up pay for low earners, this issue of concentration and employer power is a new frontier of low pay that policymakers should be getting to grips with given low-paid employees appear more exposed to this issue.

There is no single, agreed-upon view of how wages are set. Some theories of the labour market hold that the wages workers receive match their marginal product, or their contribution to the output of the firm they work in. While a person's skills, work rate and experience are obviously crucial in determining the wages they receive, anyone who has ever held a job will likely acknowledge a vital element missing from this description: power.

Wage-setting is frequently a negotiation, with the broad aim of the worker being to receive as much as possible and the goal of the employer to give as little as needed.[17] While in theory, the worker and the employer may be viewed as two equal participants in this negotiation, employers often have the upper hand. As Adam Smith famously argued, "[i]n the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate".[18] This power imbalance becomes starker when employers wield greater power, especially when they are few in number and there are many potential employees.

Organised labour can tilt this balance back towards workers. But with union membership much diminished in the UK from its late 1970s heyday, and just 15 per cent of workers in the private sector covered by a collectively bargained pay agreement, this is often not the case. In the US, where low unionisation rates have been long established, concern has recently grown about the power which firms have in certain labour markets. The issue was deemed important enough to be the focus of a research note published by the Obama White House and the issue has been increasingly addressed by academic research.[19]

This field of work is often referred to as monopsony. While monopoly refers to a situation in which there is only one seller of a good or service, a monopsony is a market in which there is only one (or very few) *buyers*. In the labour market, monopsonistic employers are those with such dominance

[17] With both employers and employees recognising the importance of ensuring the relationship remains mutually beneficial.

[18] A Smith, *The Wealth of Nations*

[19] Obama White House, *Labor Market Monopsony: Trends, Consequences, And Policy Responses*, Council of Economic Advisers Issue Brief, October 2016

in an area or an industry that they have much greater control over wage-setting. Workers in that place or sector will have little alternative but to accept the wages offered by the employer, or face unemployment.

Identifying monopsony in the real world is not straightforward. Pure monopsony – in which only one employer exists in a market or area – is rarely, if ever, seen. But the concentration of workers in a small number of firms can be observed, as well as the change in that concentration over time. And in the US, factors that contribute to monopsony or suggest that monopsony is adversely affecting the wages of employees have been highlighted. These include the poor growth of wages going back decades, the decline in the 'labour share' (the portion of national output that goes to workers) and the expansion of so-called 'non-compete agreements' which prevent employees from working for firms deemed to be competitors.

In the UK, this question has been less discussed of late, though Alan Manning (the current chair of the Migration Advisory Committee) has researched and written extensively on the topic. The relative lack of attention here could be due the fact that the UK hasn't experienced the rising pay inequality or shrinking labour share of the US. Nor do the issues of non-competes or 'job lock', in which health insurance linked to a job discourages workers from leaving, appear prevalent here.

Arguably, however, there are some indicators that this is an issue worth further exploration. Despite record high employment rates, nominal wage growth remains surprisingly weak. The share of workers switching jobs each quarter – one of the engines of higher pay growth, as employers feel pressured to boost pay packets to hold onto staff – remains subdued.

To investigate this issue, recent papers in the US have taken novel approaches, for instance ranking cities as more or less monopsonistic based on the number of firms posting job ads on popular websites.[20] While future Resolution Foundation research will examine the question in more detail, utilising linked firm-employee data, we take a first step in this report. To do so we again use ASHE (the basis for most of the analysis in *Low Pay Britain*), which allows us to identify workers employed by the same enterprise[21] as well as the number of employees firms employ.

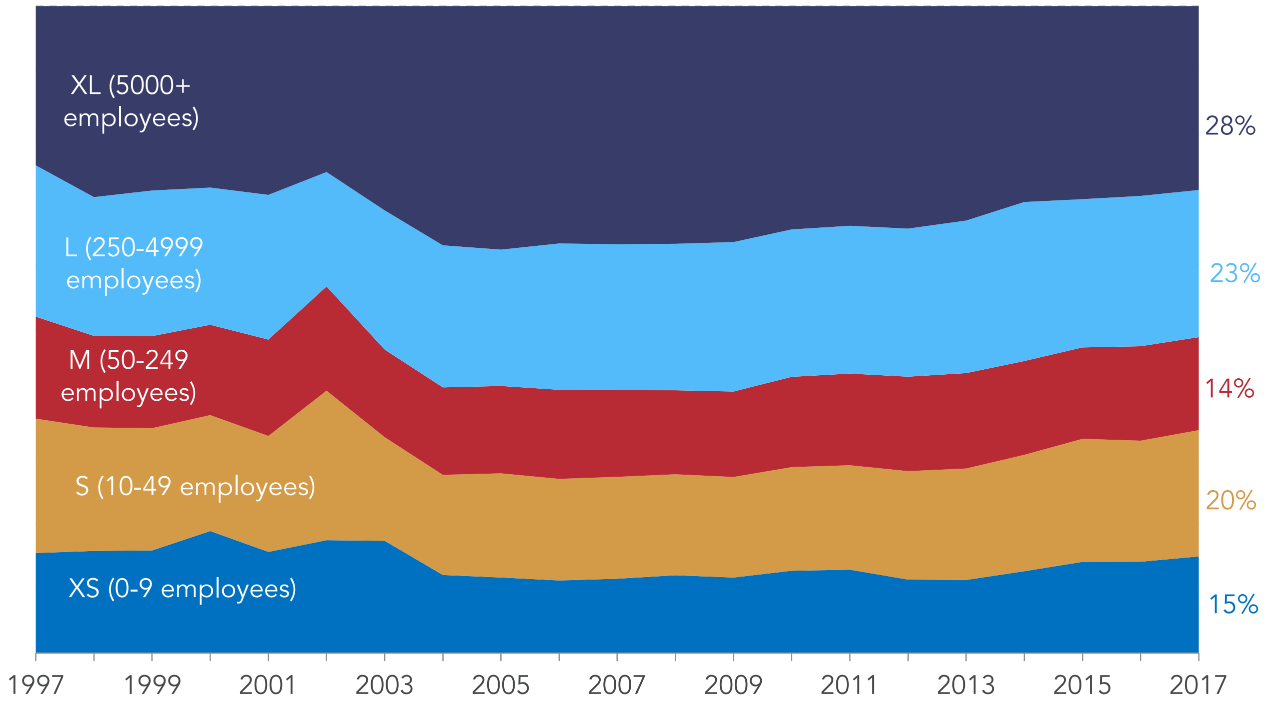
Figure 15 takes the entire low-paid population and classifies them based on the size of the employer they work for. We can see that, despite making up only a tiny minority of all firms, the largest employers – those with at least 5,000 employees – employ 28 per cent of all low-paid workers. While a significant proportion, this is nonetheless considerably lower than in 2005 when these firms employed 38 per cent of all low-paid employees. For comparison, firms of this size employed 19 per cent of all employees and 18 per cent of all non-low-paid staff in 2017.

[20] J Azar, IE Marinescu and M Steinbaum, *Labor Market Concentration*, December 2017

[21] According to the ONS: A local unit is a place of work, factory, a shop, or a branch. An enterprise can be thought of as the overall business, made up of all the individual sites or workplaces (local units).

Figure 15: Despite comprising a minority of all firms, the biggest companies employ one in four low-paid workers

Proportion of all low-paid employees by number of workers employed by firm



Notes: Denominator excludes firms for which no information is provided on number of employees.

Source: RF analysis of ONS, *ASHE*

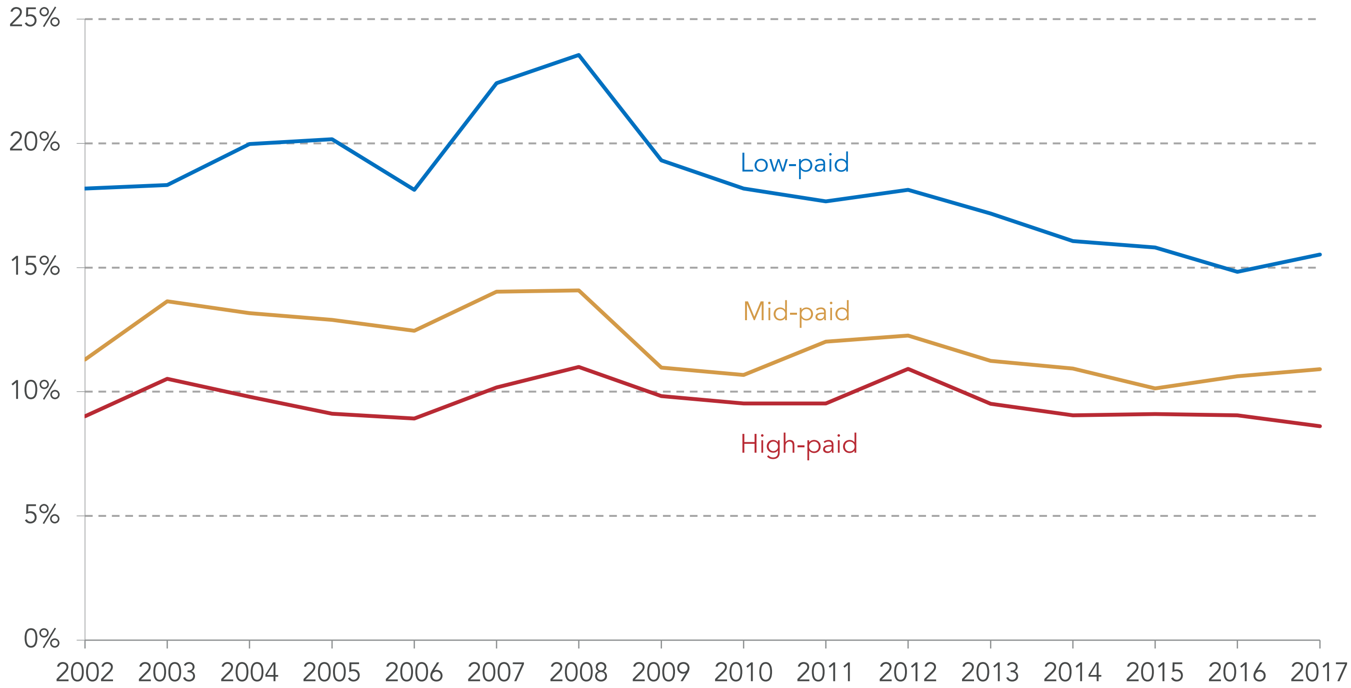
This, however, provides only a partial picture when it comes to understanding how concentrated low-paid workers are. While these 5,000+ employee firms are undoubtedly large and clearly important, without a sense of whether a few organisations dominate within the low-paid world, it is hard to estimate the extent to which the low-paid labour market is concentrated.

The data available limits the conclusions that can be drawn. Some of this is due to the method through which the ASHE survey is carried out. It is a survey completed by firms, but based on employees that have a National Insurance number ending in a particular two-digit combination. As a result, this means ASHE is a roughly 1 per cent sample of all employees. ASHE is, therefore, not a representative sample of all firms. Weights are included in ASHE which can be applied to more closely match the population of employees. But because our focus in this analysis is on *firms,* we do not apply weights. As such, our analysis below – which identifies the firms with the most employees recorded in the data – should not be considered a complete or representative picture of concentration. The proportions reported are unweighted and so should not be applied to the low-paid population as a whole to calculate the number of employees in these firms. Instead, it serves to spark further exploration of the issue of monopsony in the UK's labour market, with an emphasis on the comparison between groups, rather than a definitive answer for specific types of workers.

To assess whether low-paid workers are more highly concentrated in a small number of firms than other, higher-paid employees, Figure 16 compares low-paid workers (using our below two-thirds median definition) with those in the fifth and sixth deciles of the hourly wage distribution ("mid-paid") and those in the ninth and tenth deciles ("high-paid").

Figure 16: Low-paid employees are more concentrated in the largest firms than higher-paid workers

Share of employees in ASHE data employed by 20 largest firms within each pay band: GB



Notes: Mid-paid = fifth and sixth decile of hourly wage distribution (excluding overtime and other premium payments). High-paid = ninth and tenth decile. The 20 largest firms are not consistent across each of the three groups, or over time. Instead, they are the 20 largest firms in each year with the greatest number of employees within the ASHE data that fall into the pay band under consideration.

Source: RF analysis of ONS, *ASHE*

Across the 16 years covered in the chart, low-paid workers have been consistently more concentrated than those in mid- or high-paid roles. In 2017, the 20 firms that employed the most low-paid workers accounted for 16 per cent of all the low-paid people in the data. The corresponding figures for the firms employing the most mid- and high-paid workers were 11 per cent and 9 per cent, respectively. In effect, this means low-paid employees are 80 per cent more concentrated than high-paid employees.

While the nature of the data and the caveats noted above mean caution should be exercised when drawing conclusions about change over time, two trends do appear notable. First, a spike is visible in 2007 and 2008 among low-paid workers and, to a lesser extent, among mid- and high-paid employees. The recession may have played a role here, with smaller firms shedding workers and larger firms better able to bear the difficult economic conditions in the near term.

Since then, a decline in concentration has occurred. From the peak in 2008, when 24 per cent of all low-paid workers in the data worked for just 20 firms, the proportion has fallen steadily throughout much of the 2010s. To date the NLW appears to have had little effect, with a decrease in concentration in 2016 followed by an uptick in 2017. While a drop from the 2008 peak is visible for the other pay bands, the pattern since then has been less marked.

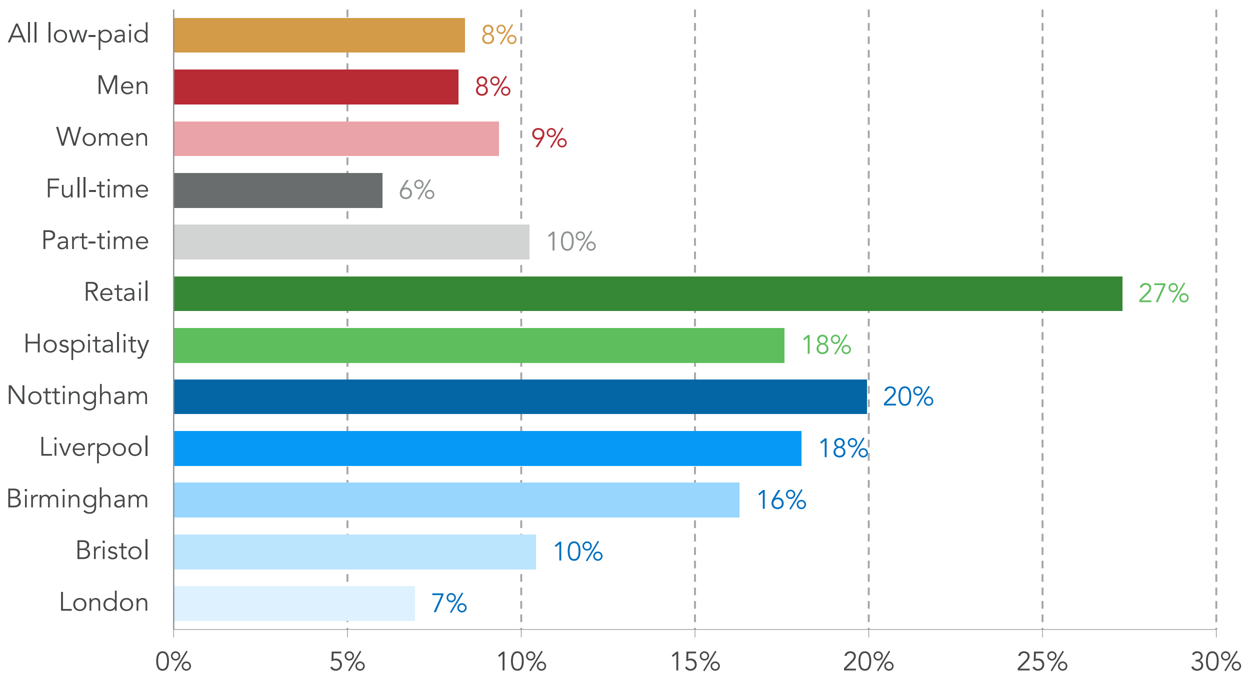
While Figure 16 suggests that concentration is not a problem that has *worsened* for low-paid people over the past decade and a half, it still finds that a large share of workers are employed by just a handful of firms, and to a greater extent than higher-paid workers. If monopsony is a problem in the UK, this evidence suggests that low-paid employees are likely to be worst affected.

But when thinking about monopsony and the power of employers, the Great Britain-level analysis above tells us less about how labour markets function within areas and sectors, or for specific kinds of workers. If, for instance, the largest employers in the country were all located in one city and employed a much higher proportion of the workforce there, this would present much greater cause for concern than if those businesses were in a range of different sectors and were spread across the country.

More care is needed, however, when analysing this data at a more localised level. As such, Figure 17 considers only the proportion of employees employed by the five firms that employ the most low-paid employees by status, industry or city. It suggests that low-paid staff who work part time are more concentrated than full-timers. While not a huge difference, this does chime with the suggestion in Section 3 that the worse-paying roles that part-timers move into may be due to the lack of quality part-time roles.

Figure 17: Some parts of the economy appear much more concentrated for low-paid employees than others

Share of low-paid employees in ASHE data employed by five biggest employers by characteristic: GB, 2017



Source: RF analysis of ONS, *ASHE 2017*

Wholesale and retail is the most concentrated industry for low-paid workers, with five firms employing 27 per cent of all low-paid staff working in the sector. While striking, it's worth noting that the same proportion of high-paid staff work for the five biggest companies in the finance and insurance sector. Industrial concentration is far from unique to low-paid staff then, but it is nonetheless notable that such a large group of people work for such a small number of firms, with power exercised over their wages and opportunities.

From the point of view of how competitive labour markets function, the city-level analysis may be of most value. At one end of the scale, London appears to be slightly less concentrated in terms of where low-paid workers are employed than Great Britain as a whole. While London dwarfs the other city regions included in this analysis in size, it is nonetheless surprising that the capital is little different from a much wider geographic area and a much larger population in terms of its concentration.

At the other end is the Nottingham city region, in which five firms employ one-fifth of low-paid employees present in the data in 2017. One potential explanation for this is that Nottingham is one of the smaller city regions, with smaller cities naturally having fewer firms than large agglomerations. But the West Midlands city region centred around Birmingham has one of the highest populations of the city regions we analyse, and is among the most concentrated cities for low-paid workers.

The evidence presented in this section is not intended to show definitively that monopsony exists in the UK's labour market, or that the wages of low-paid workers are being held down by large employers. But this section has highlighted one of the new frontiers of the low pay challenge – the power of a small number of firms within the low-paid labour market. While the importance of firms is often highlighted, this has tended to be more from the sense of what firms can do on an individual level, such as becoming a Living Wage employer, thinking about job design and encouraging progression.

This new analysis both underlines the importance of such actions among the big players in low-paid sectors – given they employ so many, changes there could impact the lives of hundreds of thousands of people – but also the limits of such a perspective. With the monopoly position of tech companies coming under increasing scrutiny, policymakers should take a similar questioning approach to low-paid labour markets, in terms of their structure and the dominance a handful of firms.

Section 6

Unequal gains

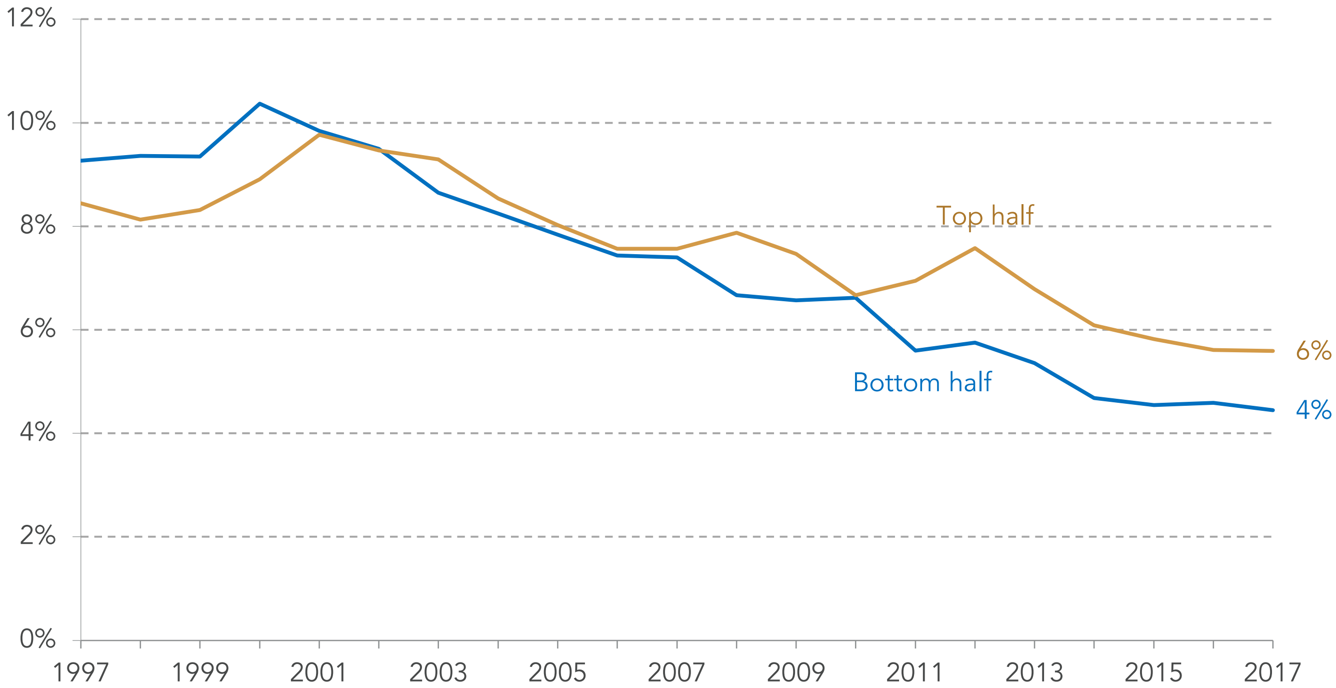
The analysis presented in the previous sections has approached the issue of low pay in different ways, but has shared one important conclusion: women are disproportionately represented in low-paid work and are less likely to progress into better-paid roles. But even the welcome debate following the government's gender pay gap reporting requirements has for the most part overlooked low-paid women. This is despite the fact that women's overrepresentation among the low-paid accounts for one-fifth of the mean gender pay gap. Pay inequality isn't restricted to higher-paying, higher-profile industries like finance and media - gender pay gaps exist within low-paying sectors like retail and hospitality too. More surprisingly, gaps persist even when the low-paying occupations within these industries are isolated. Though some signs of progress are visible, responsibility for narrowing such gaps should be taken on by firms and policymakers alike.

When it comes to pay inequality, perhaps the most hotly debated topic of the past year has been the difference in pay between men and women. While wider developments such as the *#MeToo* movement helped to propel the topic into the spotlight, the government too played its part. April 2018 marked the deadline for firms with at least 250 employees to publish their gender pay gap figures, or face penalties. Many of the organisations that have been most in the spotlight over the issue have been in generally high-paying sectors, and often with a focus on the pay gaps for high earners such as senior BBC journalists.

While the attention placed on this issue is both welcome and overdue, lower-paid individuals and sectors have not had an equal share of the spotlight. This is the despite the fact that, even within the lower half of the wage distribution, a gap exists between men and women. As Figure 18 illustrates, the median woman in the bottom half of all earners is paid 4 per cent less per hour than the median man in the bottom half.

Figure 18: A gender pay gap exists in both the top and bottom halves of the pay distribution

Median gender pay gap within the top and bottom halves of the hourly wage (excl. overtime) distribution: GB



Notes: The gender pay gap is calculated as the difference between average hourly earnings (excluding overtime) of men and women as a proportion of average hourly earnings (excluding overtime) of men. The two halves are of the entire distribution, rather than the top half of men and the top half of women.

Source: RF analysis of ONS, *ASHE*

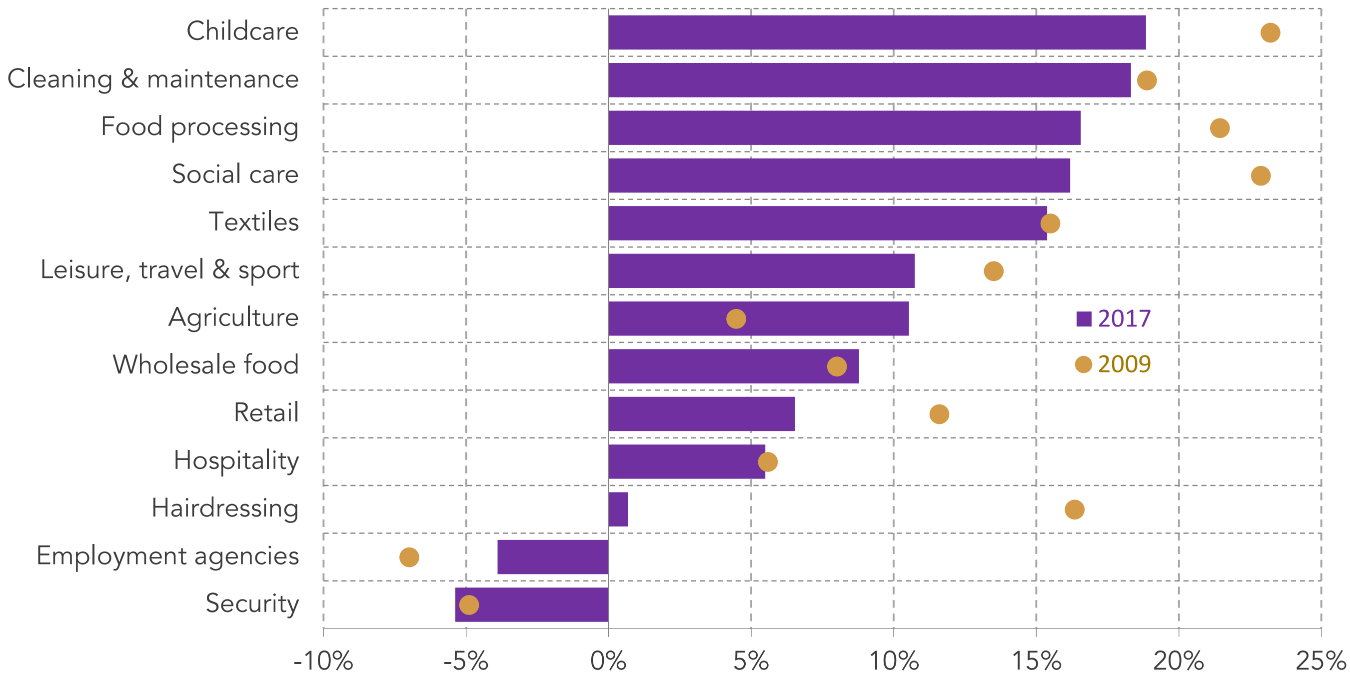
Primarily this is due to the greater proportion of women that are in low-paid jobs than men. Considering only those in low pay, the median woman actually earns slightly more than the median man (£7.35 vs. £7.25). But because over one in five (22 per cent) of all female workers are low paid, compared to just 14 per cent of men, typical pay for women in the bottom half is lower than for men.

If, instead of this sharp gender divide, those low-paid jobs were evenly distributed between men and women so that 18 per cent of both men and women were low paid, one-fifth (21 per cent) of the mean gender pay gap across British workers would be closed. This, of course, does not mean that low-paid jobs should be allocated on a gendered basis or that a perfectly equal distribution could be achieved overnight. Instead, it draws attention to the importance of low-paid women in the gender pay gap debate and the systemic disadvantages they face that have been made plain in the previous sections of this report.

Nor is it simply a question of women being overrepresented in low-paying sectors like retail, as opposed to engineering. Even looking within low-paid industries, it's clear that women are more likely to be in lower-paying roles. Figure 19 shows the median gender pay gap in the industries classified as low-paying by the LPC, comparing 2009 with 2017. Three of the four largest gaps are in sectors heavily dominated by women (childcare, cleaning and social care). How the jobs within these sectors are shared out is likely to explain this gap, with the smaller proportion of male employees in these sectors overrepresented in the highest-paying roles, in contrast to women filling the majority of low-paying roles.

Figure 19: Large gender pay gaps exist even in low-paying industries

Median gender pay gap within low-paying industries: GB



Notes: The industries shown in the chart are taken from the LPC's 2017 report. It should be noted that some industries, and the SOC codes underlying them, move in and out of the LPC's list over time. For instance, security was reclassified as a low-paying industry in 2017.

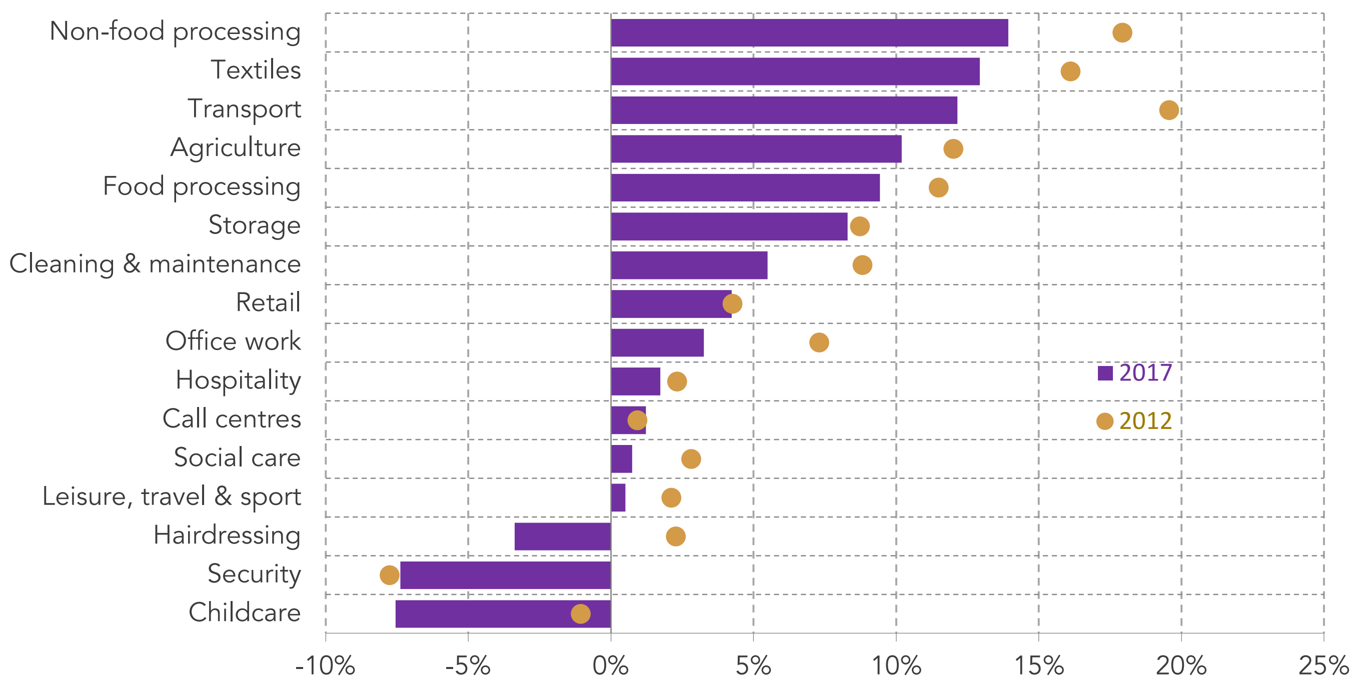
Source: RF analysis of ONS, *ASHE*

In most sectors, there has been a narrowing of the pay gap over this period, with the biggest shift coming in hairdressing, where the gap has gone from 16 per cent in 2009, to 6 per cent in 2013 and 1 per cent in 2017. Developments in other industries have been smaller on average. In retail, the largest low-paying sector, the gap narrowed from 12 per cent in 2009, to 7 per cent in 2013 – remaining at that level subsequently. Much less change is evident in hospitality over this period, with only a marginal fall from 6 per cent in 2009, to 5 per cent in 2017.

Discrimination and unequal pay – men being paid more than women for the same work – undoubtedly still exist in the UK labour market. But, as noted, these gaps are more likely to reflect the greater likelihood of men being in senior positions, even within these low-paying industries. Figure 20 attempts to focus in on just the lowest-paying occupations within industries. The gaps are generally smaller than those at an industry-level. But given these are low-paying roles, the persistence of *any* gaps is somewhat surprising.

Figure 20: Gaps are smaller when focusing on low-paying occupations but still remain

Median gender pay gap within low-paying occupation: GB



Notes: The occupations shown in the chart are taken from the LPC's 2017 report. It should be noted that some industries, and the SOC codes underlying them, move in and out of the LPC's list over time.

Source: RF analysis of ONS, *ASHE*

Nevertheless, it's welcome that the gaps in the two largest low-paying sectors – retail and hospitality – are relatively small. And it's worth noting that low-paying occupations in three sectors – hairdressing, security and childcare – had *negative* gaps in 2017, with the median woman paid more than the median man. In the case of both hairdressing and childcare, the workforce is predominantly female suggesting we might not read too much into these trends. This is not true in the case of security however, but it's possible that because the availability of fewer female security staff means they can attract a premium at events or premises where workers of both sexes are required.

Differences in terms of the kinds of roles performed by men and women are likely to explain some of the other gaps evident in Figure 20. But that doesn't mean firms, including in low-paying sectors, should not engage with these questions. The gender pay gap reporting appears to have led to some genuine soul-searching within firms, weighing up why the men in their organisations earn more than the women. Unless that discussion is converted into tangible action, however, the only marginal gains of recent years seem set to continue. For firms designing their responses, it's crucial that their focus isn't limited solely to the boardroom but extends down the pay ladder.

Section 7

Conclusion

When it comes to the nature of low-paid work, fatalism is all too common. In focus groups for last year's *Low Pay Britain*, some people in low-wage jobs spoke of poor treatment, long hours and few opportunities as inevitable in such roles. A similar attitude is sometimes apparent when the difficulty of reducing the UK's dependence on low-paid work is discussed, claiming that there is little alternative but to have millions of workers in low pay, the majority for long periods rather than as a springboard.

But there are two important pieces of evidence that remind us that change is achievable. First, other advanced economies manage to balance much lower rates of low pay without high unemployment. Productivity in low-paying sectors is worse in the UK than in many similar countries, suggesting there is scope for progress. Second, recent history in the UK is proof that progress is possible. The NMW all but eliminated extreme low pay and the NLW is narrowing the gap between the lowest earners and those in the middle.

As the NLW moves towards its target of 60 per cent of median earnings of those aged 25 and over, the time is now right to look the beyond the wage floor. Action is needed to tackle the aspects of low-paid work that have for too long been written off as "just the way things are". The day-to-day experience of life in a low-paid job is hard to capture with statistics. That's why last year's edition of this report spoke to low-paid workers in a variety of jobs and sectors to help flag the issues of greatest priority to them.

On some of these, the government has already taken steps in the right direction. Zero-hours contracts and unpredictable shifts confirmed at late notice were among the biggest complaints raised by workers. In its response to the Taylor Review, the government committed to provide the right to request a fixed hours contract. While an improvement on the status quo, a much more meaningful move would be to provide a right to such a contract for those on zero-hours contracts reflecting their hours worked. On scheduling, the consultation that the LPC is carrying out on an overtime premium could mean firms either shoulder more of the risk, guaranteeing a greater number of hours, or accept they pay a premium for the flexibility they demand from workers. Getting the design of these policies right matters, and such moves are not risk-free. But through pilots and consultation, those currently reliant on non-guaranteed hours could be placed in a more secure position.

The final report of the Resolution Foundation's Intergenerational Commission set out a number of actions designed to reshape the labour market and better support young people.[22] Given that many low-paid people are young, it is unsurprising that many of these policies would be of great benefit to the kinds of workers discussed in this report too. Progression into better-paying work remains elusive for too many people. A tailored package seeking to address the challenges faced by those trying to climb the pay ladder could achieve much, titled a "Better Jobs Deal". This could include support with relocation costs if better opportunities were available elsewhere, or funding for training or equipment.

But with women and those in part-time work facing the highest obstacles to progression, additional change will be required. Designing routes that have more senior positions offered on

[22] Resolution Foundation, *A New Generational Contract: The final report of the Intergenerational Commission*, May 2018

a part-time or flexible working basis is vital, particularly for those returning to work after having children. Timewise, an organisation which promotes such initiatives, has run pilots with large firms along such lines. But all employers should be actively evaluating what opportunities are available to progress within their organisations and who is benefiting from them.

Along with employers, government also has an important role to play. While encouraging employers and raising progression as an issue would be helpful, the most direct contribution that government can make is through the benefits system. The incentives for second earners in Universal Credit are weak, meaning that moving into higher-paid positions can often lead to negligible wage gains. With the policy being rolled out to a growing number of working families in the year ahead, allowing second earners to keep more of what they earn would make progression a more attractive prospect.

On the issue of concentration, further analysis is required before the most appropriate, if any, response required can be decided. Nonetheless, this report has suggested that if monopsony is an issue in the UK, low-paid workers appear more likely to be bearing the brunt of it. Lessons can be learned from similar government interventions in markets deemed to be too concentrated. Bodies like the Competition and Markets Authority, Ofcom and Ofgem act on behalf of consumers to ensure that markets function effectively. Reviews in the same mould as those performed by these organisations, to shine a light on any issues within heavily concentrated low-paid industries and places, representing the interests of employees, would be a welcome move.

The traditional counterweight to employer power has been trade unions. Though many factors underlie the decline in union membership in the UK in recent decades, lowering the barriers to union recruitment in workplaces could help to boost worker power in concentrated markets. And at a more local level, leaders in devolved governments, Metro Mayors and local authorities should explore how well low earners in their areas are served by their labour markets.

In conclusion, recent years have brought some welcome change to the UK's low-paid labour market. The proportion of employees in low pay continues to decline and the main driver of that shift –the NLW – appears to be working well with few signs of negative consequences so far. But policymakers should not become complacent, either assuming that the NLW will solve all problems, or that an even higher minimum wage could do so. The three challenges highlighted here – progression, employer power and gender inequality – show that much could still be done to improve work for low earners.

Section 8

Low pay in depth

This section provides more detailed statistics on who is low paid under our three definitions and how that has changed over time.

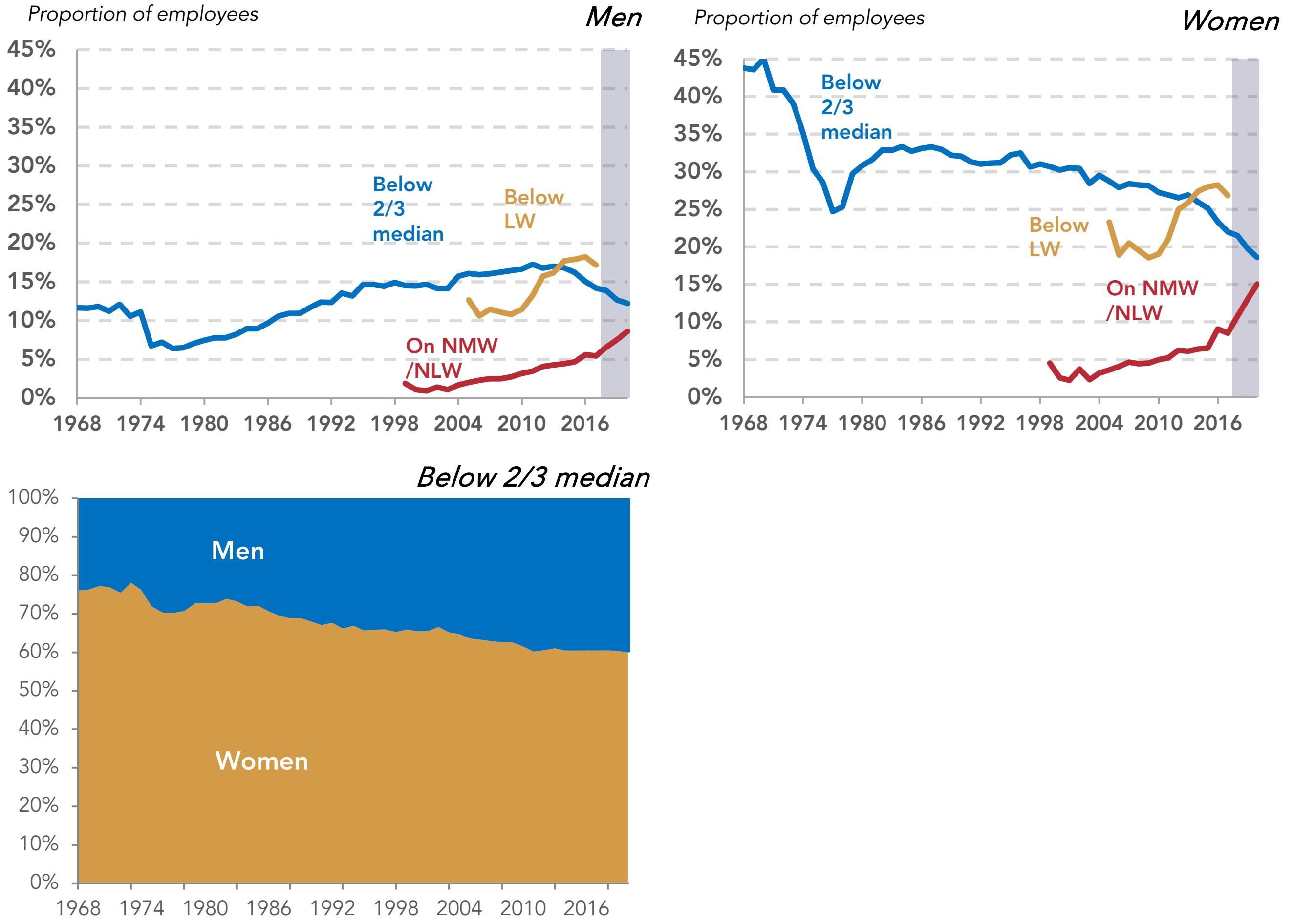
Table 1: Low pay in April 2017

	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	4,855	18%	100%	1,880	7%	100%	6,230	23%	100%
Sex									
Women	2,945	22%	61%	1,145	9%	61%	3,775	28%	61%
Men	1,910	14%	39%	735	5%	39%	2,460	18%	39%
Age group									
16-20	980	72%	20%	210	15%	11%	1,075	80%	17%
21-24	660	34%	14%	165	8%	9%	825	42%	13%
25-30	630	16%	13%	300	8%	16%	855	22%	14%
31-35	395	13%	8%	185	6%	10%	540	17%	9%
36-40	355	12%	7%	175	6%	9%	485	16%	8%
41-45	370	12%	8%	175	6%	9%	495	16%	8%
46-50	425	14%	9%	190	6%	10%	570	17%	9%
51-55	390	17%	8%	175	6%	9%	525	17%	8%
56-60	330	23%	7%	145	6%	8%	440	19%	7%
61-65	200	18%	4%	95	8%	5%	265	22%	4%
66+	120	11%	2%	65	12%	3%	160	30%	3%
Region									
East Midlands	430	23%	9%	165	9%	9%	505	27%	8%
Yorkshire & the Humber	495	22%	10%	190	9%	10%	590	27%	9%
West Midlands	515	22%	11%	210	9%	11%	615	27%	10%
North East	230	22%	5%	100	9%	5%	270	26%	4%
North West	625	21%	13%	260	9%	14%	745	25%	12%
Wales	250	21%	5%	100	8%	5%	305	26%	5%
South West	455	20%	9%	160	7%	9%	550	24%	9%
East	475	19%	10%	175	7%	9%	575	23%	9%
South East	605	16%	12%	195	5%	10%	760	19%	12%
Scotland	370	15%	8%	150	6%	8%	480	20%	8%
London	405	10%	8%	175	4%	9%	835	20%	13%
City region									
Nottingham	100	24%	2%	40	10%	2%	115	27%	2%
Sheffield	145	23%	3%	55	9%	3%	170	27%	3%
Tees Valley	60	23%	1%	25	10%	1%	70	27%	1%
Liverpool	130	22%	3%	50	9%	3%	155	26%	2%
Newcastle	170	21%	4%	75	9%	4%	195	25%	3%
Birmingham	235	21%	5%	100	9%	5%	280	25%	4%
Leeds	220	20%	5%	80	8%	4%	260	25%	4%
Cardiff	115	20%	2%	45	8%	2%	140	24%	2%
Manchester	220	19%	5%	95	8%	5%	265	23%	4%
Bristol	85	16%	2%	25	5%	1%	105	19%	2%
Glasgow	115	14%	2%	50	6%	3%	150	19%	2%
London	405	10%	8%	175	4%	9%	830	20%	13%
Occupation									
Elementary	1,610	52%	33%	690	22%	37%	1,945	63%	31%
Sales & customer service	1,065	46%	22%	360	16%	19%	1,290	56%	21%
Personal services	800	31%	16%	270	10%	14%	1,105	42%	18%
Process & machinery ops.	340	22%	7%	155	10%	8%	440	28%	7%
Skilled trades	335	16%	7%	150	7%	8%	425	21%	7%
Admin & secretarial	430	14%	9%	160	5%	9%	605	19%	10%
Managers & senior officials	90	3%	2%	35	1%	2%	135	5%	2%
Associate prof. & technical	130	3%	3%	35	1%	2%	195	5%	3%
Professional	55	1%	1%	25	0%	1%	90	2%	1%
Hours worked									
Part time	2,770	36%	57%	1,140	15%	61%	3,395	45%	54%
Full time	2,090	11%	43%	735	4%	39%	2,835	15%	46%
Hours worked and sex									
Part-time women	1,945	34%	40%	800	14%	43%	2,420	43%	39%
Part-time men	820	43%	17%	345	18%	18%	975	51%	16%
Full-time women	1,000	13%	21%	345	4%	18%	1,355	18%	22%
Full-time men	1,090	9%	22%	390	3%	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	690	30%	14%	285	12%	15%	865	38%	14%
Permanent	4,170	17%	86%	1,595	6%	85%	5,370	22%	86%
Firm structure									
Sole proprietors	205	49%	4%	120	29%	6%	230	55%	4%
Partnerships	180	32%	4%	85	15%	5%	215	38%	3%
Private companies	3,790	22%	78%	1,490	9%	79%	4,740	27%	76%
Non-profit bodies and mutuals	285	12%	6%	105	5%	6%	420	18%	7%
Local authorities	210	8%	4%	45	2%	2%	340	13%	5%
Central government	180	5%	4%	25	1%	1%	280	8%	4%
Pub. corps & nationalised ind's	5	1%	0%	:	:	:	5	3%	0%
Broad sector									
Private sector	4,180	23%	86%	1,700	9%	90%	5,185	28%	83%
Third sector	285	12%	6%	105	5%	6%	420	18%	7%
Public sector	395	6%	8%	70	1%	4%	625	10%	10%
Firm size									
XS (0-9 employees)	665	32%	14%	385	18%	20%	765	36%	12%
S (10-49 employees)	870	24%	18%	405	11%	22%	1,060	29%	17%
M (50-249 employees)	640	19%	13%	260	8%	14%	820	24%	13%
L (250-4,999 employees)	1,015	16%	21%	395	6%	21%	1,355	22%	22%
XL (5,000+ employees)	1,270	25%	26%	360	7%	19%	1,605	31%	26%
Industry									
Hotels & restaurants	910	58%	19%	405	26%	22%	1,050	67%	17%
Wholesale & retail	1,300	33%	27%	450	11%	24%	1,585	40%	25%
Agriculture	45	31%	1%	20	14%	1%	50	37%	1%
Arts & recreation	170	30%	4%	65	11%	3%	215	38%	3%
Admin & support services	505	29%	10%	255	15%	14%	640	37%	10%
Other service activities	125	26%	3%	75	16%	4%	155	32%	2%
Health & social work	640	16%	13%	205	5%	11%	880	22%	14%
Manufacturing	315	13%	6%	115	5%	6%	405	16%	7%
Construction	105	11%	2%	50	5%	3%	130	13%	2%
Water supply & waste	15	10%	0%	10	5%	1%	20	13%	0%
Real estate	35	10%	1%	15	4%	1%	50	14%	1%
Education	360	9%	7%	90	0%	5%	560	0%	9%
Transport & storage	100	8%	2%	40	3%	2%	145	12%	2%
Prof. & technical	115	6%	2%	45	0%	2%	160	0%	3%
Info. & comms.	60	6%	1%	25	2%	1%	80	7%	1%
Public admin	30	2%	1%	10	1%	1%	55	4%	1%
Finance	20	2%	0%	5	1%	0%	35	4%	1%

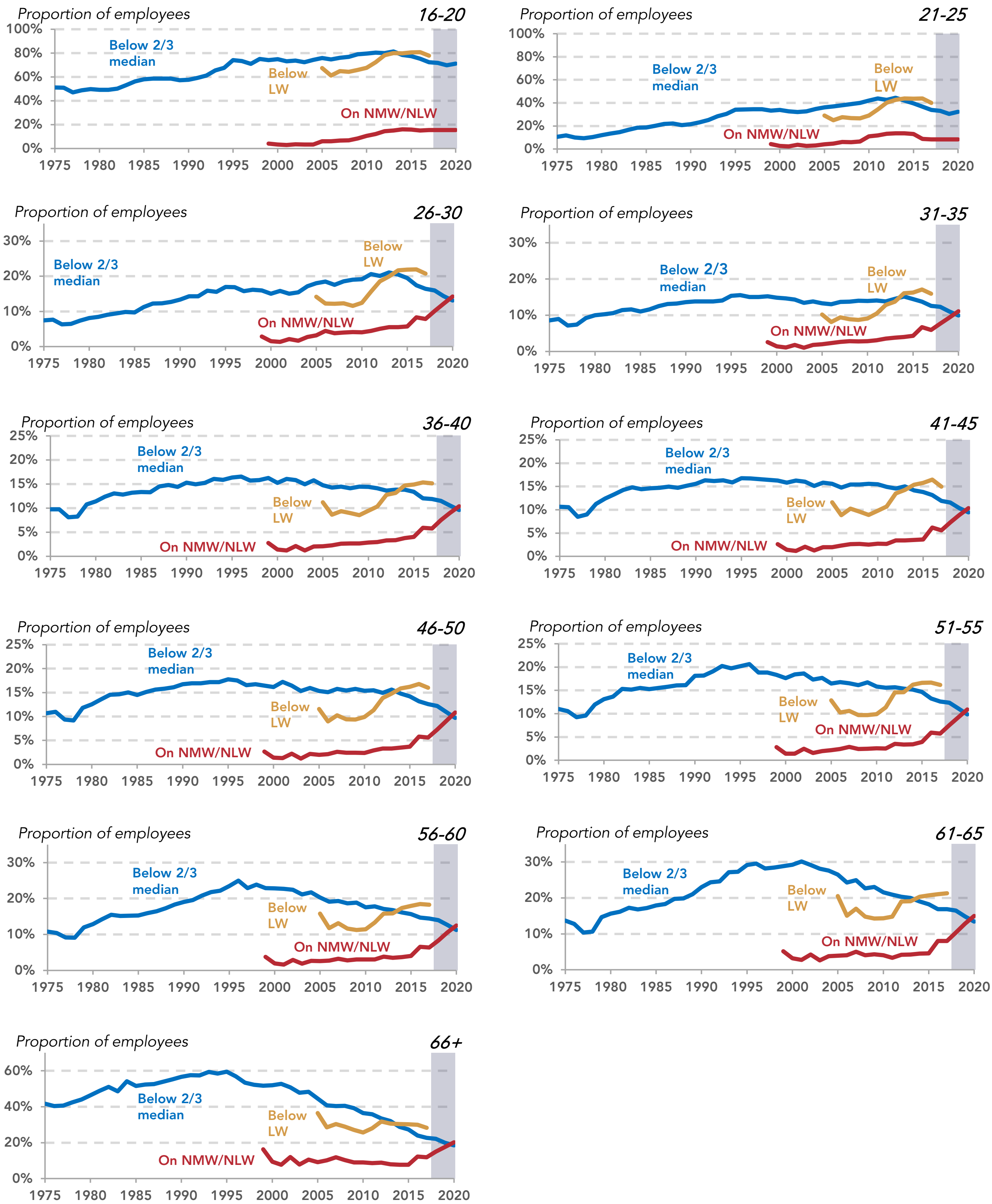
Source: RF analysis of ONS, *ASHE 2017*

Figure 21: Proportion of employees below selected low pay thresholds & distribution of low by sex: GB, 1968-2020



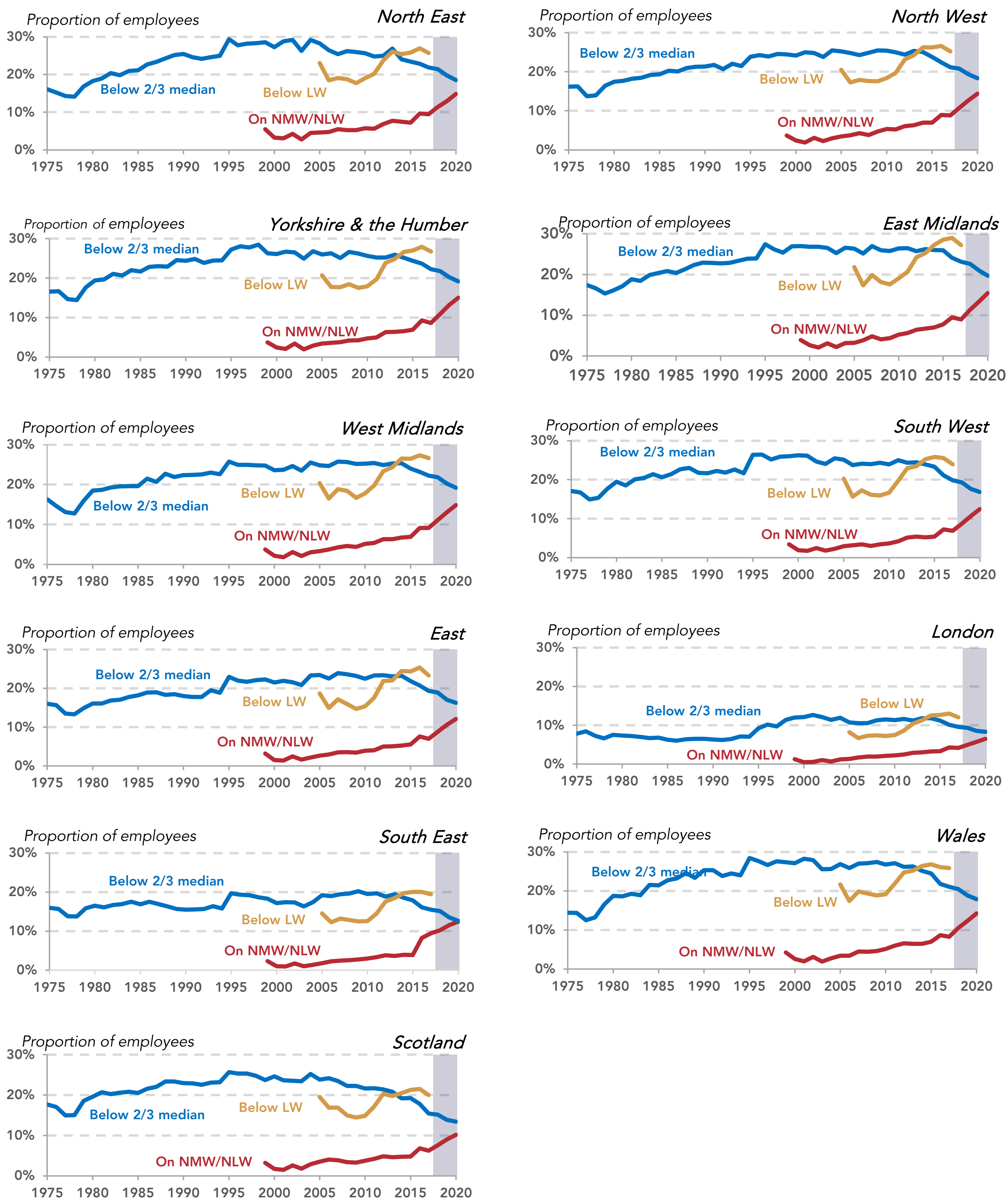
Source: RF analysis of *DWP, Family Expenditure Survey (1968-1981)*; ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 22: Proportion of employees below selected low pay thresholds by age: 1975-2020



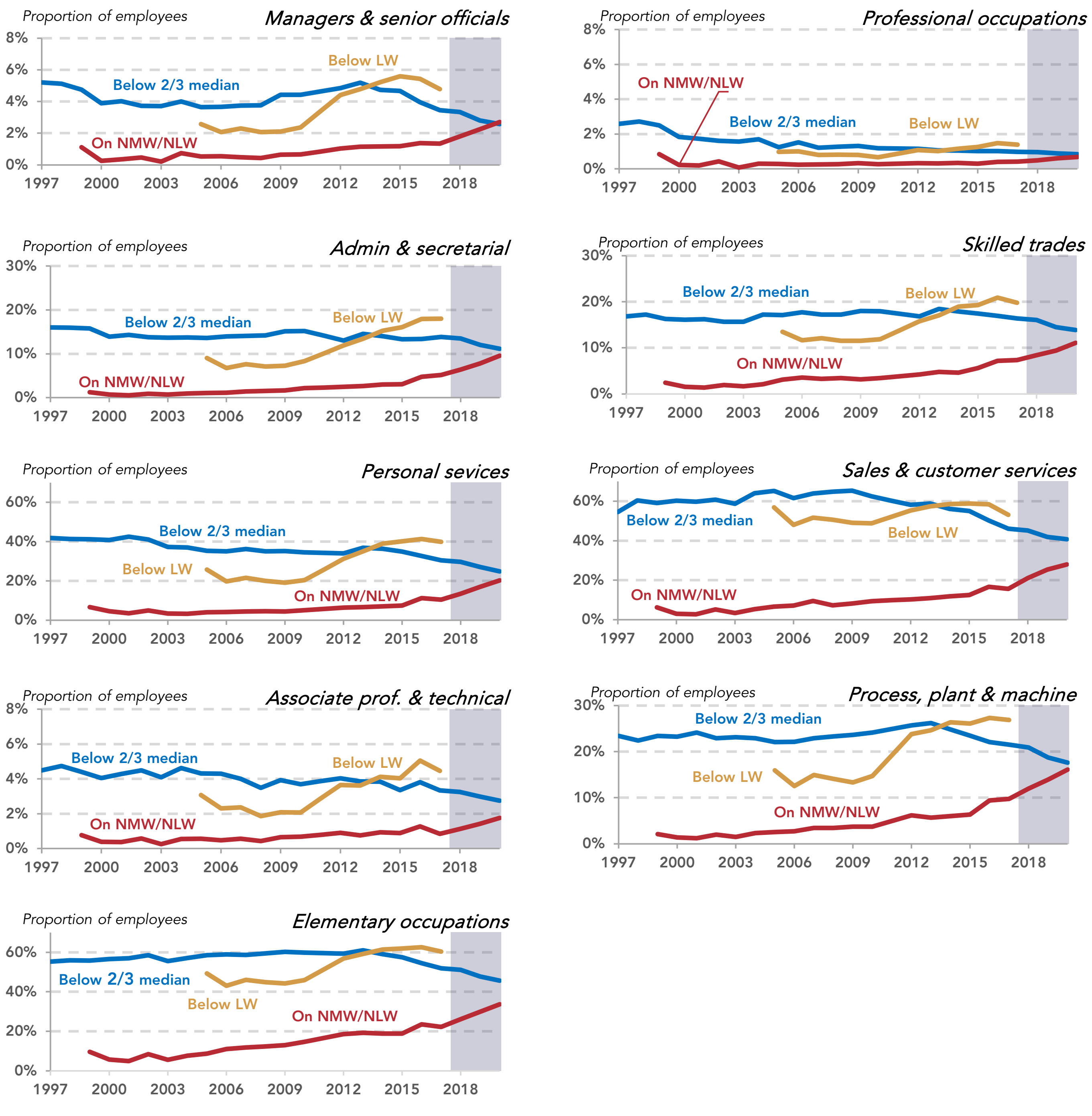
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 23: Proportion of employees below selected low pay thresholds by region: 1975-2020



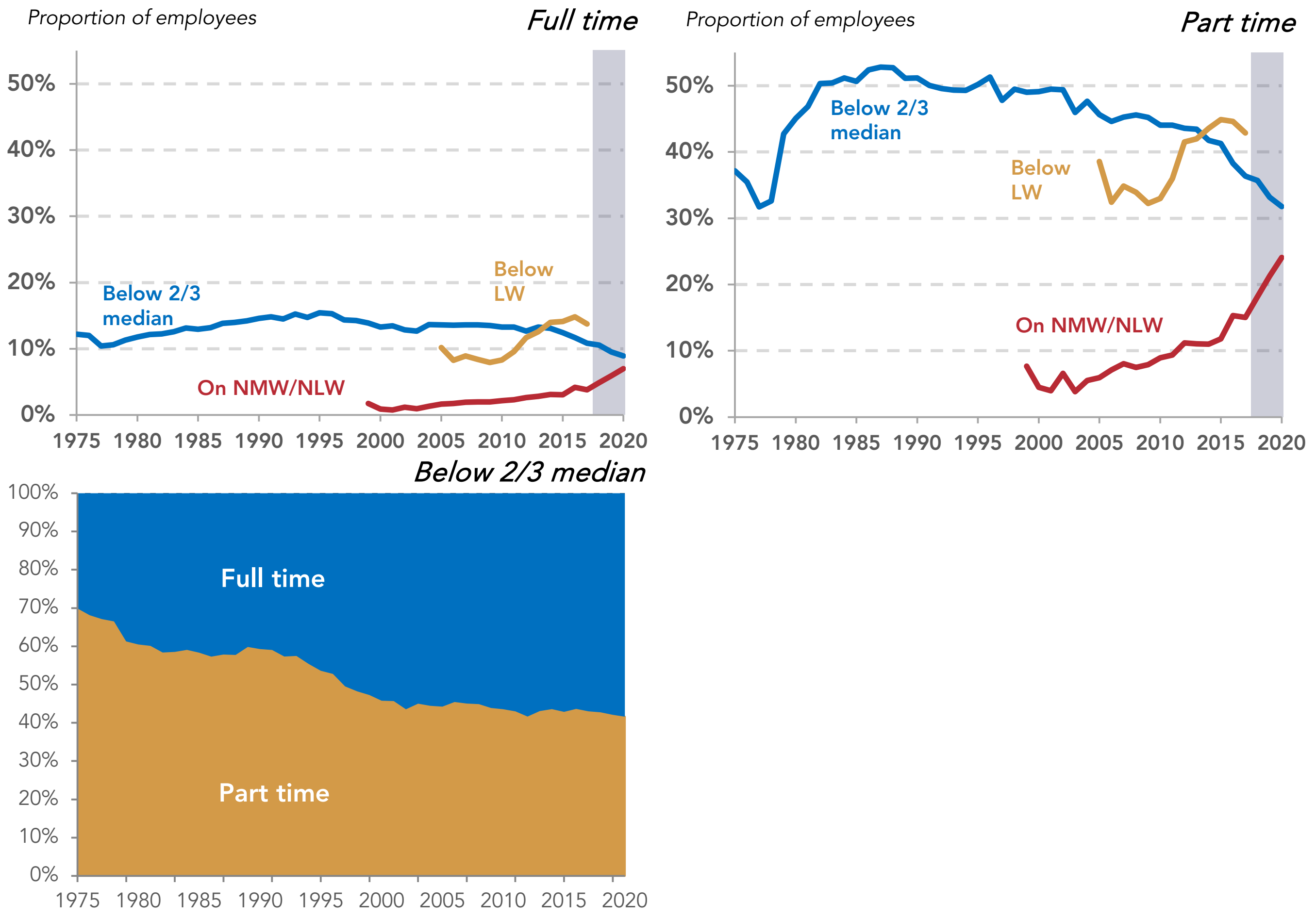
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 24: Proportion of employees below selected low pay thresholds by occupation: 1997-2020



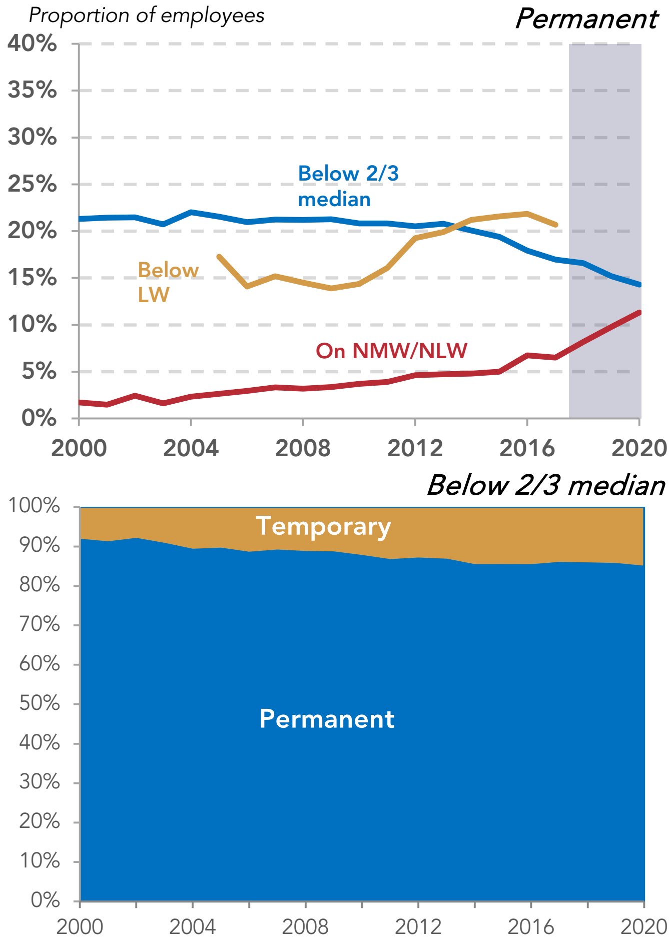
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 25: Proportion of employees below selected low pay thresholds & distribution of low pay by hours worked: 1975-2020



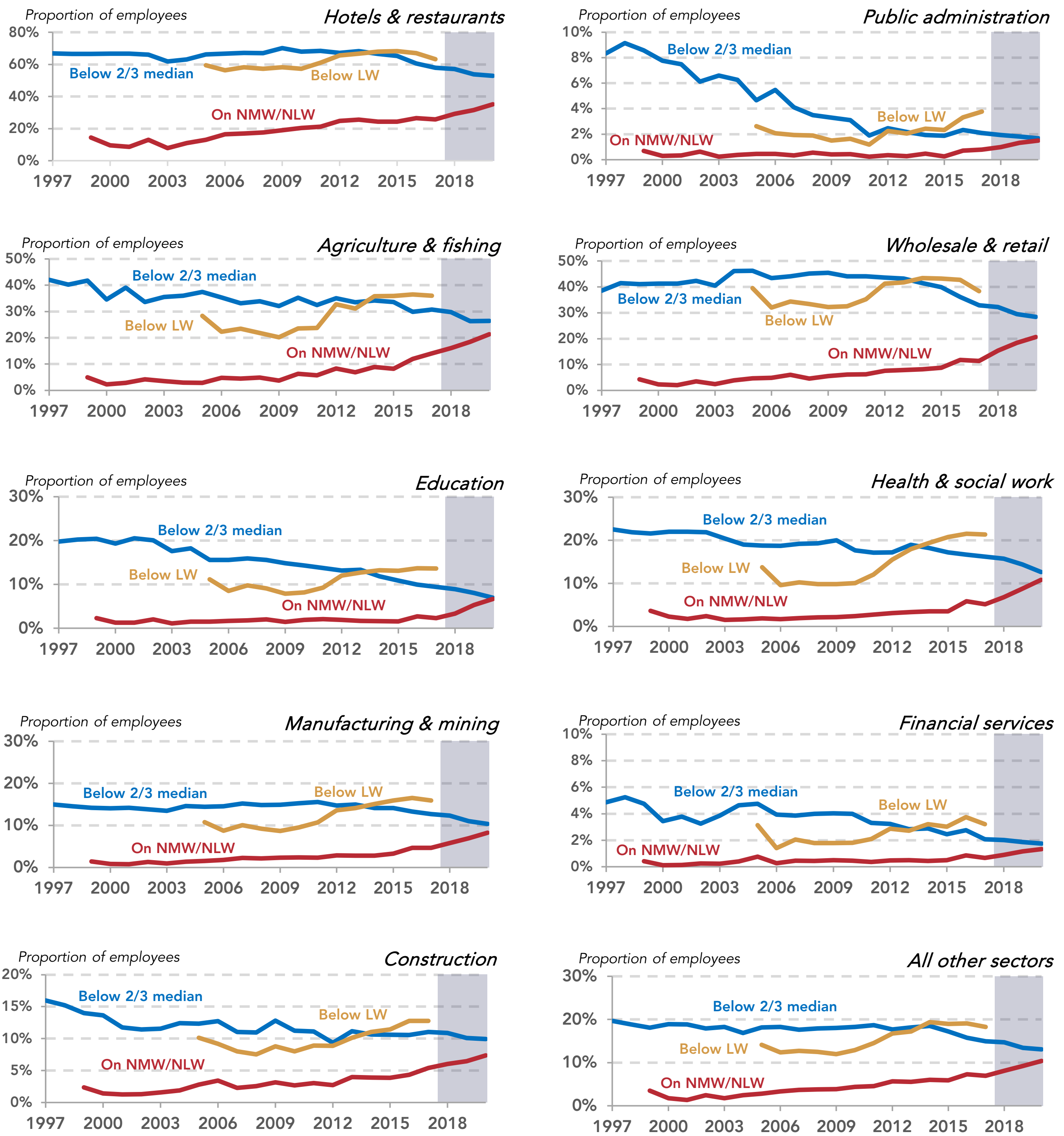
Source: RF analysis of ONS, *New Earnings Survey Panel Data (1975-2013)*; ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 26: Proportion of employees below selected low pay thresholds & distribution of low pay by work status: 2000-2020



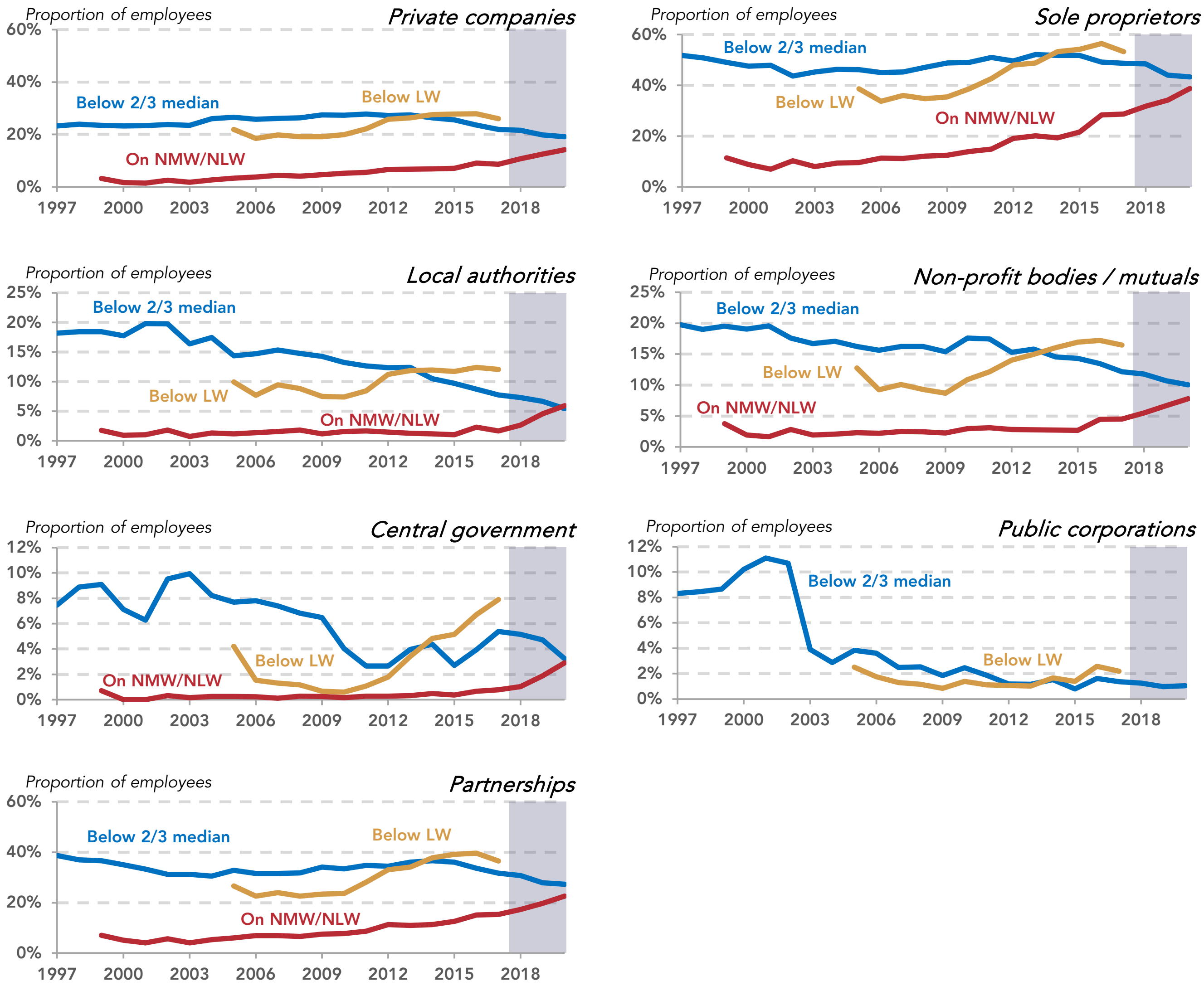
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 27: Proportion of employees below selected low pay thresholds by industrial sector: 1997-2020



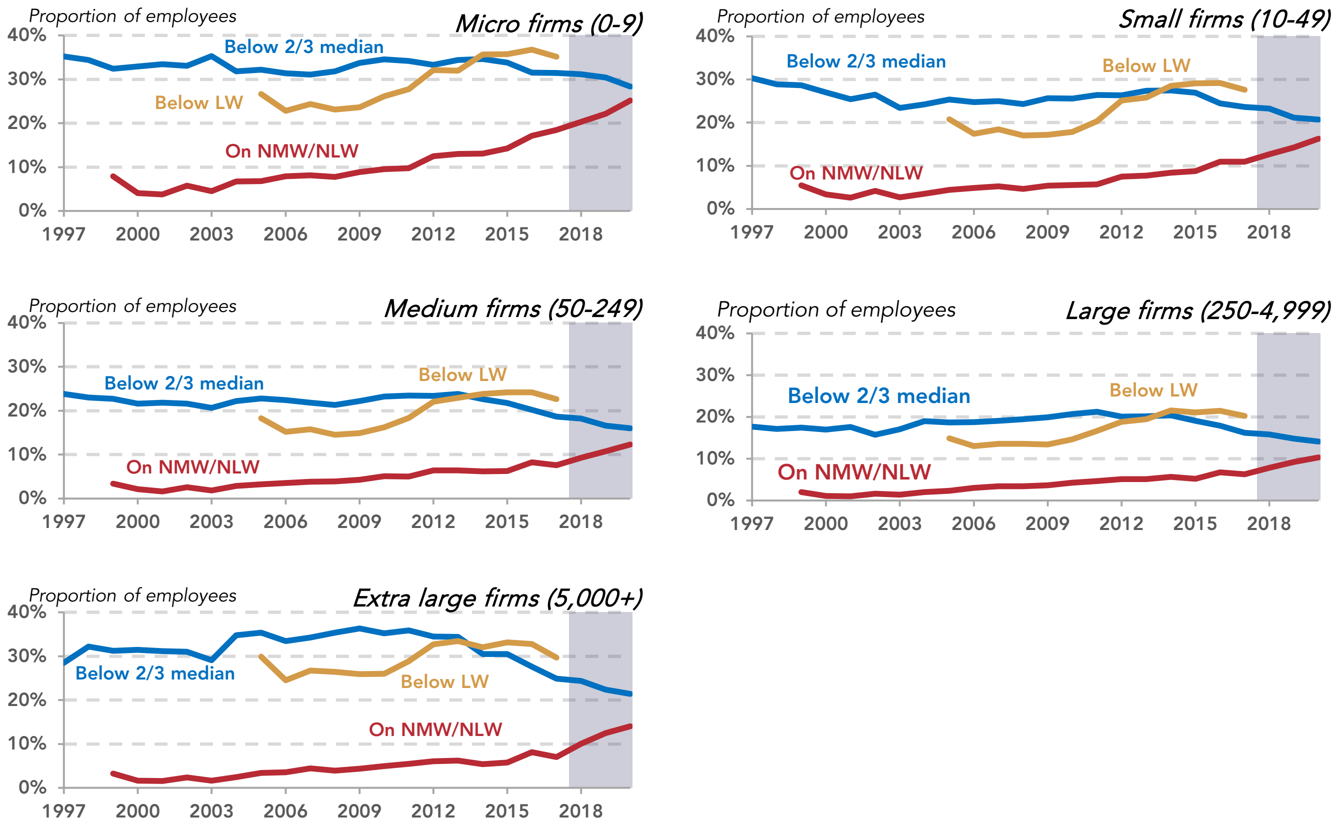
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 28: Proportion of employees below selected low pay thresholds by firm structure: 1997-2020



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Figure 29: Proportion of employees below selected low pay thresholds by firm size: 1997-2020



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings (1997-2017)*

Annex

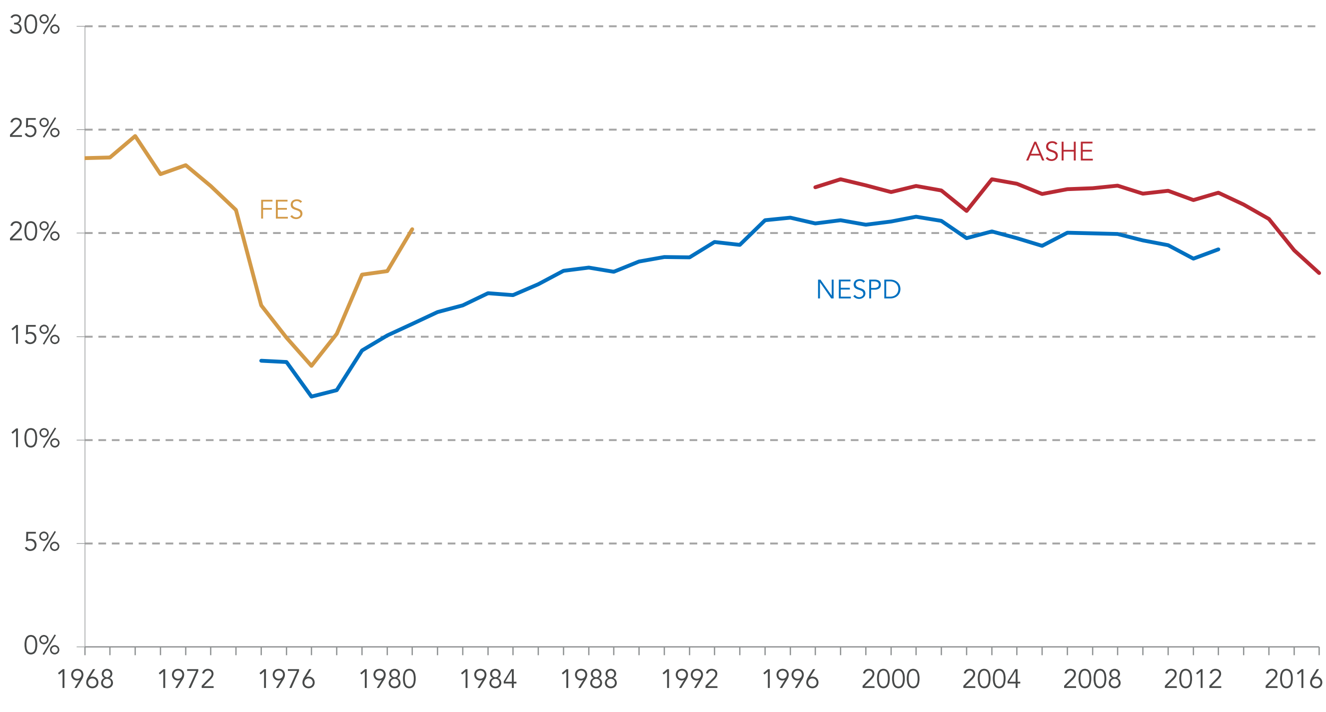
In this Annex we describe the data sources and methods used throughout this report.

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 2017.

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 30 presents figures from the three sources in their raw form.

Figure 30: Proportion of all employees below selected two-thirds median hourly pay in different data sources: GB, 1968-2017



Notes: Family Expenditure Survey data is based on the derived hourly normal pay figure (code: p011) for all adults aged 18 and over. New Earnings Survey Panel Data and Annual Survey of 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.
Source: 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 (1997-2017)*

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 specific 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 (£3.50 in April 2017) 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 £8.57. To do this we follow the same methodology used in our previous reports on the potential impact of the NLW.[23] 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 2018, 2019 and 2020, we identify the values that are the percentage of median earnings of those aged 25 and over in the 2017 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 2018-19 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 2017 and up to 2020 using OBR projections for employment growth.

Defining city regions

For our analysis comparing different city regions in the UK, the city regions and the local authorities they encompass are set out in Table 8 of S Clarke, *City living: devolution and the living standards challenge*, Resolution Foundation, October 2016

[23] 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

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

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

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