

## **Consultation: Inquiry into poverty in Wales: making the economy work for people on low incomes**

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### **An exploration of low pay sectors, and measures to improve pay of low-paid workers such as the living wage; Ways to increase the security of work in Wales**

#### **1. Low pay is a UK-wide problem**

1.1 Twenty-five percent of jobs in Wales are low paid, a figure that has remained largely unchanged over the last 20 years<sup>1</sup>. Low pay is a problem across the UK, and Wales is in a very similar position to many English regions, such as the North-East, North West, West and East Midlands, Yorkshire and Humberside and the South West. The major increase in low paid work in the UK took place between the end of the 1970s and the mid-1990s. Since the introduction of the National Minimum Wage, the overall level of low pay has remained relatively stable in Wales, although there has been a slight reduction in female low pay (currently 29%), compared to a steady increase in male low pay to 19%<sup>2</sup>. While the level of low pay may not stand out in relation to many regions in England, it is high in comparison with a number of other countries, such as France, Italy and Denmark where approximately nine percent of workers are low waged<sup>3</sup>. The incidence of low pay, however, is similar to Germany and somewhat less than the US.

1.2 In Wales, there is considerable regional variation in the incidence of low pay. Caerphilly, Cardiff and Neath Port Talbot have rates of low pay (18-20 percent)<sup>4</sup> that are not that different from London. However, in Gwynedd, one third of all jobs (in the Parliamentary constituency of Dwyfor Meirionnydd it is estimated as half of all jobs) are low paid, with rates at 28 percent in Pembrokeshire and Powys. Rural areas, alongside particular localities within the South Wales Valleys, such as Rhondda and Ogmore, are most reliant on low paid jobs.

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<sup>1</sup> Below 2/3 median hourly pay. Clarke, S. and D'Arcy, C (2016) *Low Pay Britain*, London: Resolution Foundation, pg37

<sup>2</sup> <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-11-21/215522/>

<sup>3</sup> Eurostat 2014 earn\_SES\_pub1

<sup>4</sup> <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-11-21/215522/>

1.3 Low pay is not just an issue for young or part-time workers. Nearly half of all low wage workers in the UK (data is not available for Wales) are aged between 31 and 55. Although half of all part-time jobs (for both men and women) are low paid, 43% of all low paid jobs are full-time. These figures relate to employees, and estimates are that, in addition, around half of all the self-employed (in the UK) are low paid.<sup>5</sup> Low pay is found in every sector, but for the UK as a whole, 46 percent of low waged workers are in the retail and hospitality sectors<sup>6</sup>. However, a further 20 percent work in education and health and social work; areas where government has greater leverage.

## **2 Solutions to Low Pay: Evidence from international studies**

2.1 During 2002 and 2008, I was a member of a large international team that undertook a major comparative project on low waged jobs, funded by the US Russell Sage Foundation. It compared lower level jobs in five sectors (food processing, retail, hotels, call centres and hospitals) across six countries<sup>7</sup>. Our conclusion was that the most important determinant of the incidence of low pay was the inclusiveness of wage setting institutions. Inclusiveness refers to the extent to which wages, benefits and working conditions negotiated by those workers with strong bargaining power are able to be extended to those with less bargaining power. The main institutional mechanisms are systems of collective bargaining that cover nearly all workers and/or a relatively high national minimum wage.

2.2 High out-of-work benefits can also be important in restricting low wages, as they provide an effective wage floor, seen in Denmark where there is no legal minimum wage. Other factors, such as macroeconomic effects, i.e. recession and industry structure, mediated national institutional systems but were not the primary factor in shaping low waged work. Levels of education/training were also relatively marginal, for example 80% of Germany's low paid possessed an apprenticeship or a degree<sup>8</sup>.

2.3 For the last 30 years, education and training has been seen as key to tackling poverty and enhancing employment and growth in Wales, as in the UK. While there has been an increase in the proportion of the workforce in graduate and professional occupations in Wales since 2004 (up from 35 to 40 percent), there remain half a million jobs (close to 40%) that do not require a level 2 qualification (equivalent to five A-C GCSEs) on entry<sup>9</sup>. In comparison, less than 200, 000 people of working age in Wales (22%) do not possess a level 2 qualification. The result has been a growing concern about levels of over-qualification,

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<sup>5</sup> Broughton, N. and Richards, B. (2016) *Tough Gig: Tackling low paid self-employment in the London and the UK*, London: Social Market Foundation.

<sup>6</sup> Clarke, S. and D'Arcy, C (2016)

<sup>7</sup> J. Gautié and J. Schmitt (eds) (2010) *Low-Wage Work in the Wealthy World*, New York: RSF

<sup>8</sup> Bosch, G. and Weinkopf, C. (2010) 'Minimum wage systems and changing industrial relations in Europe: National Report Germany', [www.research.mbs.ac.uk/ewerc/Portals/0/docs/GermanReport\\_000.pdf](http://www.research.mbs.ac.uk/ewerc/Portals/0/docs/GermanReport_000.pdf)

<sup>9</sup> Felstead, A., Davies, R. and Jones, S. (2013) *Skills and the Quality of Work in Wales, 2006-2012*, Cardiff: WISERD.

poor skill utilisation and outward migration of qualified workers. Skills policy is an important part of any strategy aimed at tackling low pay and job insecurity, but in isolation the evidence suggests it has little impact on job quality.

### **3. Insecure Employment**

3.1 Hourly pay is clearly an important factor in income, but it is becoming increasingly apparent that the number and the security of hours are major issues in relation to low pay and poverty. Working time security is also essential for workers to be able to participate effectively in society and organise work with other activities, such as childcare, social and sporting activities and other jobs. Although the data is unreliable on the extent of insecure working time, the use of zero hours contracts appears to be becoming more prevalent in retail, hospitality and care work, while greater use is being made of 'self-employment' status in areas such as delivery. Alongside these types of contracts, which have been prominent in the media, less visible is the use of involuntary part-time work, variable and core hour contracts.

3.2 I was recently involved in a comparative study of the café sector in the UK, Norway and France<sup>10</sup> and we found a clear shift in the UK away from full-time or fixed part-time hours towards employers using variable hours contracts. A minimum number of hours would be specified in the contract – anything from 12 to 20 – with the promise that additional hours would normally be available. In many cases, employees worked full-time most weeks, but for any reason, hours could be cut back without notice. The variability and uncertainty in the number of hours created problems for workers in ensuring a minimum income, as well as making it difficult to manage in-work benefits. In similar organisations, in France and Norway, these types of practices were extremely rare. Employment regulation in both of these countries require hours worked to reflect contracts, notice periods for changes to shifts and, in France, a minimum of 24 hours per week contract for part-time work.

### **4. Research on low pay**

4.1 A number of central conclusions can be drawn from the various research projects that I have been involved in around low paid work.

- Many private sector employers in the UK, for example large retailers, coffee and sandwich shops and hotels are highly profitable, yet still pay low wages. Profit rates in the UK are generally substantially higher than comparable companies in Germany and France.

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<sup>10</sup> Lloyd, C. and Payne, J. (2016) *Skills in the Age of Over-qualification: Comparing Service Sector Jobs in Europe*, Oxford: OUP.

- Employers are able to recruit workers without diverging far from the national minimum wage and there is little evidence of recruitment or skill shortages in these types of jobs.
- Lack of union organisation and representation makes it extremely difficult to pursue issues of unfair or illegal treatment at work, particularly in relation to working time issues.
- Some sectors are held back from investing in new technology or innovation due to their reliance on low wage workers. In some areas, we see an increase in labour intensive work, for example hand car washing, deliveries, human bill boards<sup>11</sup>.
- There is little evidence that a more qualified or skilled workforce leverages a greater number of better paid jobs. For individuals, obtaining qualifications provides the opportunity to compete for a wider range of jobs but there is a lack of evidence to support the view that it pushes employers to change the way they organise work or what they pay.
- For smaller organisations or those squeezed by more powerful players in the supply chain, tight margins can lead to competition based on low labour costs. Outsourcing and subcontracting encourages more wage competition and enables the lead employer to reduce their responsibility for issues such as training, health and safety and employment law.

## 5. Policy measures on low pay & insecure working hours

5.1 International research would indicate that the widespread extension of collective bargaining or a high national minimum wage are central factors to reducing the incidence of low wages. Powers to intervene in these areas are only available at the UK level and with collective bargaining coverage at 26 percent, rebuilding these types of institutions is likely to be a long-term process. The recent introduction of the ‘national living wage’ will have some positive effects on wages at the lower end, but it is only available for the over-25s, with one third of low paid workers excluded. The minimum wage will not have any impact on the number and security of hours available to workers. The primary mechanism available to deal with working time issues is through employment legislation and enforcement, and these are very weak in the UK.

In the absence of Welsh government powers in these areas, there are a number of potential interventions to improve the pay and security of workers, although they are likely to have a much smaller impact. Some suggestions are made in relation to three main areas: the Living Wage, public sector procurement and industrial policy.

### 5.2 Living Wage

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<sup>11</sup> See for example, Clarke, I. and Colling, T. (2016) ‘New insights into informal migrant employment: Hand car washes in a mid-sized English city’, *Economic and Industrial Democracy*.

- Extend further the use of the Living Wage in the public sector. The Living Wage is still not implemented by many local authority employers.
- The education and the health and care sectors account for 20 percent of low wage jobs and the government is the main funder. Consider how social care can be funded and managed to ensure care workers are paid the living wage.
- Implementation of the living wage should be linked to improving working time and employment security, an approach that will require more focus on enforcement.
- More high profile campaigns and ‘badging’ of employers, particularly in the retail and hospitality sectors.

### 5.3 Public sector procurement

- Use of public procurement throughout the public sector to extend current practice, for example measures used in the construction sector could be explored in other areas.
- Procurement processes that prioritise local employment and direct employment and encourage good quality training programmes, such as apprenticeships or retraining for older workers.
- Develop the procurement skills in the civil service and public sector more broadly to reflect a shift away from cost efficiency model to one built around quality of provision and enhancing the economy through higher wages.

### 5.4 Industrial Policy

- Supporting SMEs and embedded sectors in rural areas. Consider how planning applications for retail and hospitality outlets, for example, can be extended to include job quality measures.
- Government funding/support only for existing companies and inward investors that are long-term and sustainable, rather than ‘footloose’.
- A more targeted skills policy that supports an industrial strategy by focusing on those organisations and sectors which have the potential to create and sustain high value-added, intermediate and high skilled jobs.
- Link industrial policy support to new procurement practices that encourage local businesses to grow.

## 6 Limitations

The extent to which a more ambitious approach can be developed in Wales is restricted by austerity and the lack of resources held by Welsh government and the public sector more broadly. Limited economic and regulatory powers also limits the potential for intervention in the private sector where low wage jobs are more prevalent.

