July 2014

THE WORK FOUNDATION
PART OF LANCASTER UNIVERSITY

Rising to the Challenge

A policy agenda to tackle low pay

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The Work Foundation transforms people's experience of work and the labour market through high quality applied research that empowers individuals and influences public policies and organisational practices.

Acknowledgements

This is the final paper to be published as part of our Bottom Ten Million research programme. We would like to thank our sponsors – Barrow Cadbury Trust, Impetus-Private Equity Foundation, The Tudor Trust and Working Links. We would also like to thank Paul Sissons, Ian Brinkley and Jenny Gulliford for their input into this paper.

Executive summary

This is the final paper in our 'Bottom 10 Million' research programme, which examined the employment prospects of workers earning less than £15,000 a year. Since we launched the programme in 2011, much has changed. The economic recovery has gathered pace, but while average earnings growth now exceeds price increases, it will be some years before real living standards are restored. Meanwhile the proportion of employees paid below the Living Wage has risen rapidly in recent years. As Britain emerges from recession, it is vital that strategies for economic growth are complemented by strategies to address the pervasive problem of low pay in the British economy.

There is now much more of a political spotlight on low pay, with politicians from across the political spectrum calling for increases in the National Minimum Wage. However, we argue that current policy levers are not sufficient to meet the challenge; we need a coordinated low pay strategy for the UK that brings together policy on wages, skills, and productivity in low-wage sectors. This paper goes some way towards outlining the elements of such a strategy, drawing on evidence about the appropriate policy options both from our own previous research and that of others. This paper is also a starting point, outlining an ambitious research agenda to address the low pay challenge, which we will be pursuing in the coming months.

Low pay is a problem for both individuals and for society.

For individuals, low pay can result in hardship and material deprivation – with data showing that working poverty is now more common than out-of-work poverty in the UK. There are also reasons to be concerned about the level of low pay on grounds of fairness. The level of low pay is a measure of inequality and, in many cases, reflects an under-valuation of women's work. The nature of low-paid work in Britain also gives cause for concern; too many people remain stuck in low pay for long periods, or churn in and out of low pay and unemployment, leading to financial hardship and negative repercussions for their future employment prospects.

Low pay is also costly to society, both via payment of tax credits and other in-work benefits which top up low income, and through foregone tax revenues. In 2012/13, £20.7 billion was spent on tax credits for working households. With all political parties now committed to reduce levels of welfare spending, this level of subsidy is unlikely to be sustainable in the longer term.

Low pay affects 5.1 million employees, or 21 per cent of the workforce, in the UK, and may now have surpassed unemployment as the most important structural issue

facing the labour market. While unemployment following the economic crash in 2008 did not come close to levels experienced in the 1980s, significant levels of low pay have remained constant for the last two decades. This level of low pay is higher than many of our major competitors, suggesting that the rate is far from inevitable. The reasons for the UK's high rates of low pay have been long debated. A poor record on social mobility, serious skills deficits within the workforce and the overall structure of an increasingly flexible, service-centred labour market have all been linked to the problem. Research shows that firms in low-wage sectors often deploy competitive strategies based on low-skill, low-cost and low-value added, which is reflected in relatively poor productivity performance compared to many other advanced economies. Raising productivity in the low-pay sectors needs to be a central element in a sustainable strategy to address low pay.

The National Minimum Wage - while successful in raising the wages of the very lowest paid – is below the low pay threshold and has had minimal impact on the wider incidence of low-wage work in the economy. This means we need an approach which goes beyond the usual policy levers of wage floors, welfare reform, and improving skill levels. A strategy for tackling the problems associated with low pay must incorporate industrial and innovation policies targeted on low-pay industries, skills utilisation policies, changes to the organisation of work, and the implementation of progression pathways within the workplace.

Here we outline the key elements of a policy agenda for tackling persistent low pay in the UK. Over the years, many analysts have offered their prescriptions for tackling this issue; we do not pretend to be the first or seek to reinvent the wheel. Rather, we outline a set of policies that would help to shape the framework for the UK's first coordinated strategy for tackling low pay. Building on the policy analysis detailed in the report, the proposals draw on an extensive evidence base in some areas, but in others they are necessarily more tentative. They also provide a starting point for our new research programme which will investigate and develop these ideas further, in collaboration with a range of stakeholders.

We propose that the Government sets out a strategic framework for a coordinated low pay strategy for the UK, which explicitly aims to reduce the share of low-wage jobs in the British economy. Action to address low pay is required on three fronts:

- Raising wage floors
- Enabling progression
- Facilitating higher wage business models

Raising wage floors

1. **Becoming more ambitious about the remit of the Low Pay Commission**

We propose that the Low Pay Commission (LPC) be given a much wider remit and adequate resources to take proactive measures to achieve a reduction of low pay, providing analysis and where appropriate offering advice on the causes, consequences and potential solutions to the wider challenge of low pay in the UK. As part of this, the LPC should return to the "escalator" seen in the early 2000s and seek to increase the National Minimum Wage (NMW) at a faster rate than average earnings over the next few years, given the current strength of the economic recovery. However, we are not persuaded that it would be helpful for the Government to set a specific target for the level of the NMW because this would risk the political neutrality of the LPC and likely fracture its widespread support. At the same time, the Government should provide more direction to the Commission's work by articulating an aspiration to reduce the share of low-paid jobs in the UK over time to a level nearer to the OECD average (currently 17 per cent).

2. Government promotion of the Living Wage

With all political parties now claiming to be serious about tackling low pay, government and the public sector must take a clear lead in this. Government departments and local authorities should aim to be Living Wage employers. The public sector should be supported and potentially incentivised to adopt policies for 'social/ community benefit'[1] as part of sustainable procurement policies, in order to encourage wider payment of the Living Wage throughout their supply chains.

3. Increasing transparency around payment of the Living Wage

One of the ongoing challenges in improving the uptake of the Living Wage is that many employers do not currently see a clear business case, particularly where a voluntary system means that any employer attempting to improve wage rates runs the risk of being undercut by competitors. One way of tackling this problem is through improving transparency around payment of the Living Wage, thus allowing campaigners a better means of targeting their efforts and raising awareness amongst the wider public as a mechanism for incentivising businesses to act. We therefore recommend that all publicly-listed companies be required to make available information on the proportion of their staff paid below the Living Wage. This would encourage businesses to be clearer in justifying their decisions around pay, and would allow those displaying good practice to better publicise this as part of their business case.

[1] The term 'social/community benefits' is used to refer to contract requirements that are innovative and aim to achieve social, economic or environmental benefits for a target community.

Enabling progression

4. Access to training and advice for low-wage workers

Whilst low-wage workers who receive training do not always progress in work, higher skills are clearly linked to better outcomes in the labour market. With low-wage workers less likely to receive training, the Government has a role to play in supporting access to training and careers advice for this group to facilitate progression. Much of the funding that the Government makes available for adult skills development is targeted on the unemployed and those who lack basic skills. Recent government initiatives have sought to give employers a much greater role in designing and administering funding and this is to be welcomed. In some cases, however, low-wage workers will be looking to undertake training so that they can change their employment. In such cases, employers may have little incentive to support workers to access training.

The National Careers Service, or other independent advisers, could therefore play a role in administering targeted skills funding for low-wage workers. This would require an expansion of the Adult Skills budget, where funding is forecast to fall for the next few years, as well as requiring further resources to raise awareness of the availability of careers advice services amongst low-wage workers. For this intermediary role to work, the National Careers Service would need to work in collaboration with industry bodies such as Sector Skills Councils to develop sector specialisms so as to ensure that high quality careers advice, linked to specialist knowledge of progression pathways within particular sectors, was available for learners.

5. Funding to develop career ladder schemes

Career ladders can offer workers a route into higher-skilled job roles, whether in the same organisation, across a sector, or possibly in a local area. In England, Local Enterprise Partnerships (LEPs) have been tasked with promoting economic development and are set to play a strategic role in skills funding and provision over the coming years. So far, these partnerships have tended to focus on achieving economic growth rather than on social outcomes or the issues facing low-wage workers, but there is scope for them to either work with or commission employment and skills providers to do more to support progression from low-wage work. In some instances, LEPs are already being encouraged to work with local skills providers to ensure that the supply of skills relates to local demand. Building on the Employer Ownership of Skills pilot we propose that pilot funding be made available specifically so that local stakeholders can work together with sector skills bodies to develop career ladder initiatives that benefit low-skilled staff.

Higher wage business models

6. Develop sector strategies for tackling low pay

There needs to be a coordinated industrial strategy covering the key low-pay sectors, developed with partners and stakeholders in the sector, building on the welcome extension of the Strategic Partnership for the retail industry, as part of the Government's evolving industrial and innovation strategies. This should include a clear focus on transferring best practice and lessons on tackling low productivity and improving progression across the low-pay sectors.

7. Business support services to stimulate employer demand for and use of skills

At the local level, LEPs can play a bigger role in bringing together local strategies for skills with wider economic development priorities, and linking to other business support activities to seek to grow the number of 'good jobs' locally. This could include a focus on incremental innovation in sectors with large numbers of low-wage jobs as well as supporting peer-to-peer learning among businesses around employer demand for skills. This focus – currently not on the agenda of some LEPs - could be stimulated through key targets in devolved budgets.

8. Strengthen support for SMEs in moving towards higher wage business models

As a significant part of the UK labour market, SMEs have a vital role to play in tackling low pay. Business support services that work with SMEs should seek to improve managerial capability and offer advice and guidance on job design and the adoption of human resource management practices, with a view to better managing and progressing low-paid staff. Reinforcing the focus of existing resources on improving SME managerial capability through schemes like the national Growth Accelerator or the LEAD programme delivered by Lancaster University, especially in low-wage sectors, may prove more cost-effective than across the board incentives and tax cuts.

9. Promoting employment rights among contingent workers

There is a strong case for ensuring that current flexibilities in employment contracts ensure a fair balance between employers and employees. This could include better awareness and enforcement of existing employment rights – particularly for those in insecure forms of employment such as temporary or agency workers and zero hours workers.

Zero hour contracts have been a major focus of the public debate and we welcome the Government's commitment to ban the use of exclusivity clauses in zero hours

contracts, to develop clear guidelines on good practice, and to raise awareness of rights and how these might be affected by changes in contract and employment status. We recommend that these are taken forward on a sectoral basis, as the challenges and solutions across sectors will vary significantly. We are also attracted to the ideas in the Pickavance report that employees working fairly consistent hours under a zero hours contract would have the right to request a move to a regular, minimum hours contract at six months and that this move would become automatic at twelve months, with an opt out clause allowing employees who prefer the flexibility of a zero hours arrangement to continue. This seems to strike a reasonable balance between allowing employees who like the flexibility of zero hours to continue with the arrangement, giving those who would prefer a regular contract more certainty about their hours, while at the same time preserving the ability of employers to operate flexibly.

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Chapter 1 Introduction

This is the final paper in our Bottom 10 Million research programme that examined the future prospects for workers earning less than £15,000 a year. Since we launched the programme in 2011, much has changed. The economic recovery has gathered pace, but while average earnings growth is now exceeding prices, it will be some years before real living standards are restored. Meanwhile the proportion of employees paid below the Living Wage has risen rapidly in recent years. As Britain emerges from recession, it is vital that strategies for economic growth are accompanied by strategies to address the pervasive problem of low pay in the British economy.

There is also now much more of a political spotlight on low pay, with politicians across the spectrum calling for increases in the National Minimum Wage. However we argue that current policy levers are not sufficient to the challenge; what is needed is a comprehensive low pay strategy for the UK that brings together policy on wages, skills, and productivity in low-wage sectors. This paper goes some way towards outlining the elements of such a strategy, drawing on evidence about the appropriate policy options both from our own previous work and that of others. This paper is also a starting point, outlining an ambitious research agenda to address the low pay challenge, which we will be taking forward in the coming months.

The high share of low-wage work in the UK remains a pervasive problem. One in five employees earns below the low pay threshold[2] today, little changed from the mid 1990s. The number of people in low pay also looks set to increase in the future, with projections[3] indicating a growing number of low-paid jobs, alongside continuing polarisation in skill demand. While unemployment did not increase by nearly the extent that many predicted during the most recent recession, the problem has now become the growing numbers of low quality jobs.

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[2] The low pay threshold is typically defined as 60 per cent of full-time median adult earnings (gross).
[3] UKCES (2014) *Working Futures: 2012-2022*.

The recession saw bigger job falls in higher-paid than lower-paid industries[4], and while the recovery has seen an expansion of employment across the board, the share of jobs in low-paid industries is now higher than in 2008. The recession and subsequent recovery have also seen rapid rises in the numbers of involuntary temporary and part-time jobs, and in self-employment, at the same time as incomes from self-employment have fallen significantly[5]. Both trends will impact especially hard on low income households, as continued falls in real wages have squeezed living standards. Most economic forecasts now expect average earnings growth to exceed prices, but by past standards this growth is likely to be modest and it will be some years before real living standards are restored. Thus, as Britain emerges from recession, it is vital that strategies for economic growth are accompanied by strategies to address low pay and job quality.

While low-wage work need not in itself be a bad thing, several features of low-wage work in the UK give cause for concern. Firstly, low pay is associated with in-work poverty, which has increased by 1.6 million over the last 15 years[6], suggesting that low wages are replacing unemployment as one of the major drivers of poverty. Low pay is also associated with 'churning' between work and benefits, which can result in financial hardship and has scarring effects on future employment prospects[7]. Thirdly, while low pay may be a transitory phase for some, earnings mobility is relatively limited in Britain, leaving some low-paid workers - most notably women working part-time – stuck in low pay for prolonged periods, with implications for child poverty and for poverty in later life.

Thus, the scale of the challenge, and the current political spotlight on the issue of low pay, make this a critical time to develop a more comprehensive policy agenda than has so far been considered to tackle low pay. This paper explores the range of policy options available and what is currently being recommended by politicians and policy analysts, and develops a series of recommendations for areas of policy that need to be prioritised in order to support sustainable solutions for improving the prospects for low-wage workers.

Policy context for low-wage work

The level of pay that a worker receives is not simply a reflection of the value of the work, but is influenced by other factors too, including the employer's ability and willingness to pay, and the wider institutional framework, including wage-setting

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[4] LPC (2014) *National Minimum Wage: Low Pay Commission Report 2014*, Chapter 2
[5] ONS Labour Market Statistics; Murphy (2013) *Disappearing fast: the falling income of the UK's self-employed people*, Tax Research LLP
[6] MacInnes, T., Aldridge, H., Bushe, S., Kenway, P. and Tinson, A. (2013) *Monitoring poverty and social exclusion 2013* York: Joseph Rowntree Foundation
[7] Shildrick, T., Macdonald, R., Webster C. and Garthwaite, K. (2012) *Poverty and Insecurity: Life in Low-Pay, No-Pay Britain*. Bristol: The Policy Press

mechanisms, welfare policies and skills systems[8]. This indicates that there are a range of policy levers available for influencing low pay. However, low-wage work has not typically been seen as an object of policy concern in the UK. Instead, in recent decades, the primary emphasis has been on promoting employment participation, through a range of activation measures, and ensuring that 'work pays' through the provision of means-tested in-work benefits. The National Minimum Wage (NMW), introduced in 1999, represented a more direct intervention to raise wage levels, but while this has successfully raised the wage floor, it has not tackled the wider incidence of low pay and consequently in-work poverty. Instead, the wage distribution has become increasingly clustered around the level of the NMW, with around 5 per cent of employees, 1.2 million people, paid within 5p of the NMW in 2012[9].

Recently, however, low pay has come to occupy a more central place in political and policy agendas, partly as a result of the political focus on 'the cost of living crisis'. The Business Secretary, Vince Cable, asked the Low Pay Commission (LPC) to extend its remit to consider how the NMW might rise faster in the future to deal with the wider issue of low wages in the economy, while the Chancellor, George Osborne, said he wanted to see an above-inflation increase in the NMW this year. The LPC's response to this was that, ultimately, any solution to low pay rests on policies that increase productivity across the low pay industries, for example through skills policy levers, as well as specific sector-based measures (such as public spending in social care.)[10]

Low pay has also come to the forefront in the welfare reform agenda. Partly this is related to an increasing recognition of 'churn' within the benefits system, resulting in greater attention paid to the quality of the jobs obtained by those leaving benefits. More recently, given the climate of fiscal constraint, the government is also looking at ways of reducing the tax credits bill – as tax credits have become increasingly crucial for families in low-wage work to avoid poverty – including a greater priority placed on earnings progression. The first annual report of the Government's advisory Social Mobility and Child Poverty Commission, for example, concluded that*: 'the taxpayer alone can no longer afford to shoulder the burden of bridging the gap between earnings and prices. The Government will need to devise new ways of*

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[8] Grimshaw, D. (2011) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO

[9] Resolution Foundation (2014) *More than a minimum: The Resolution Foundation review of the future of the National Minimum Wage: The final report* London: The resolution Foundation

[10] Low Pay Commission letter to Vince Cable, 25 February 2014

sharing that burden with employers ...'[11]

One significant development here is the introduction of in-work conditionality under the new system of Universal Credit (UC)[12]. This means that once individuals are in employment, but not earning enough to move out of Universal Credit completely, there is an expectation (to be backed up by a sanctions regime) that they will continue to increase their earnings by looking for more hours and/ or a better paid position. Thus, the question of job quality and wage progression are becoming increasingly central, with the Department for Work and Pensions funding a number of pilot schemes to test alternative ways of encouraging earnings progression[13].

At the beginning of 2014, the Chancellor George Osborne also announced that an additional £25bn worth of public spending cuts would be necessary after the next election, at least half of which are planned to come from the welfare budget[14]. Given that after the state pension, housing and council tax benefits and tax credits account for the largest proportion of this budget – benefits which are paid to people in low-paid employment – the issue of making work pay looks likely to increase in salience still further in the coming years.

Policy approaches: The individual or the job?

There are two broad options when it comes to policy approaches to addressing low pay. The first is helping individuals to move out of these jobs into better ones. The second is to improve the quality of those low-paid jobs themselves. A focus on individuals, for example, would include policy aimed at improving skills, since it is known that an increase in qualifications yields a wage return[15], or policy aimed at facilitating occupational mobility, for example through the provision of careers advice. Policies that focus directly on upgrading jobs include wage setting mechanisms, such as statutory minimum wages or collective bargaining, and policies that influence employer business models, such as skills policies (supply and demand-side), or levers in public procurement and regulation. In the remainder of this report, we examine both of these broad approaches to tackling low pay, examining the current state of policy and practice for each policy lever, what the

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[11] Social Mobility and Child Poverty Commission (2013) *State of the Nation 2013: Social mobility and child poverty in Great Britain*, pp6-7

[12] Universal Credit, which is being phased in between 2013 and 2017, is a single, integrated benefit which will replace all of the current means-tested benefits and tax credits for those of working age. It thus reduces the distinction between in-work and out-of-work support. See Hirsch, D. and Hartfree, Y. (2013) *Does Universal Credit Enable Households To Reach A Minimum Income Standard?* York: Joseph Rowntree Foundation.

[13] See https://www.gov.uk/government/publications/developing-in-work-support-for-people-claiming-universal-credit

[14] http://www.bbc.co.uk/news/uk-politics-25617844

[15] What Works Centre for Local Economic Growth (2014) *Evidence Review: Employment Training*; Garrett, R., Campbell, M. and Mason, G. (2010) *The Value of Skills: An Evidence Review*, UKCES

evidence says about their effectiveness, and the opportunities and challenges each presents, as a basis for making recommendations about the priorities for future action.

The next chapter of the report briefly describes the current picture with regard to low pay and low-paid workers in the UK, setting out the nature of the challenge. Chapter three then focuses on policy levers to improve low-wage work directly, examining the evidence on setting wage standards; measures to improve productivity in low-wage jobs; and improving job quality. Chapter four goes on to examine policies for individual wage mobility, focusing on raising and recognising skills; facilitating job change; and designing in progression. Chapter five concludes the report and sets out a series of policy recommendations for the future direction of a low wage strategy for the UK.

Chapter 2 Low-wage work in the UK: the nature of the challenge

Low pay in the UK

Low pay is an enduring feature of the UK labour market. Using a relative measure of low pay[16], which measures how wages at the bottom fare in relation to the median, 5.1 million employees, or 21 per cent of the workforce, were in low pay in 2012[17]. Low-wage work increased steadily from the late 1970s until the late 1990s, from a low of 13 per cent to a peak of 23 per cent in 1996, before flattening out and then falling gently to 21 per cent in 2012 – primarily as a result of decreasing low pay among women over this period[18]. However, while this indicates that wages at the bottom have kept pace with the median over recent years, alternative needs-based measures of low pay – such as the proportion paid below the Living Wage[19] - have increased rapidly, from 15 to 20 per cent of employees since 2008[20]. This reflects falling real wages in relation to the cost of living, and suggests that the experience of low pay may be worsening even while the proportion in relative low pay remains stable.

Who are the low-paid workers?

There are a number of individual characteristics associated with being in low pay. Those most likely to receive low pay are women, young people, older workers, people without qualifications, some ethnic minorities[21], lone parents and disabled people[22]. Low pay is more prevalent among women employees (26 per cent are in low pay) than men, as they are more likely to work in low-paying sectors and are

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[16] 60 per cent of full-time median adult earnings (gross).
[17] Whittaker, M and Hurrell, A. (2013) *Low Pay Britain 2013* London: Resolution Foundation
[18] Grimshaw, D. (2011) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO
[19] The Living Wage reflects what households need to ensure an acceptable standard of living, and is calculated on the basis of the Minimum Income Standard - what surveyed members of the public feel households need in order to achieve minimum standards.
[20] Whittaker, M and Hurrell, A. (2013) *Low Pay Britain 2013* London: Resolution Foundation
[21] particularly Pakistanis, Bangladeshis, other Asians and Black Africans
[22] Wilson, T., Gardiner, L. and Krasnowski, K. (2013) *Work in Progress: Low pay and progression in London and the UK* London: Centre for Economic and Social Inclusion; Grimshaw, D. (2011a) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO

more likely to be employed part-time, which has a substantial overlap with low pay[23]. In fact, it has been argued that low pay is partly a reflection of the under-valuation of women's work, in particular caring work[24]. However, while women continue to comprise the majority of all low-paid workers, the proportion of low-paid work accounted for by men has gradually risen over the past three decades, from just under one-quarter of all low-paid workers to nearly two-fifths in 2012[25]. Young people are hugely over-represented in low pay - 78 per cent of 16-20 year old and 38 per cent of 21-25 year old employees are in low pay, and while rates of low pay have been falling for older employees since the late 1990s, they have risen rapidly for the under-25s[26].

Which jobs are low-paid?

Low pay is associated with particular types of occupations. These include elementary roles, sales and customer service jobs, and personal services, which together account for three quarters of the low-paid workforce in the UK[27]. Such low-paid jobs are also concentrated to a great extent in certain sectors, including, in particular, hotels and restaurants, wholesale and retail, and administrative and support services. This sectoral pattern of low pay is also reflected in regional disparities in low pay prevalence. For example, only eleven per cent of the workforce was low paid in London in 2012, and 18 per cent in the South East, compared to close to 25 per cent in the northern regions of England, the Midlands and Wales. However the difference between London and the rest of the country is less marked if looking at the proportion of employees paid below the Living Wage – a needs-based measure of low pay - due to higher costs of living in London[28].

Contractual status and type of employer are also important to patterns of low pay. As already noted, part-time work has a strong overlap with low pay – over two fifths of part-time workers are low-paid, and part-timers make up over half of those in low pay. Temporary work also has a high risk of low pay, with a third of temporary workers low-paid[29]. Workers in the private sector are also more likely to be low paid than those in the public or third sectors, as are those in small or micro-firms compared to those in larger firms[30]. Low-wage workers are also less likely to be

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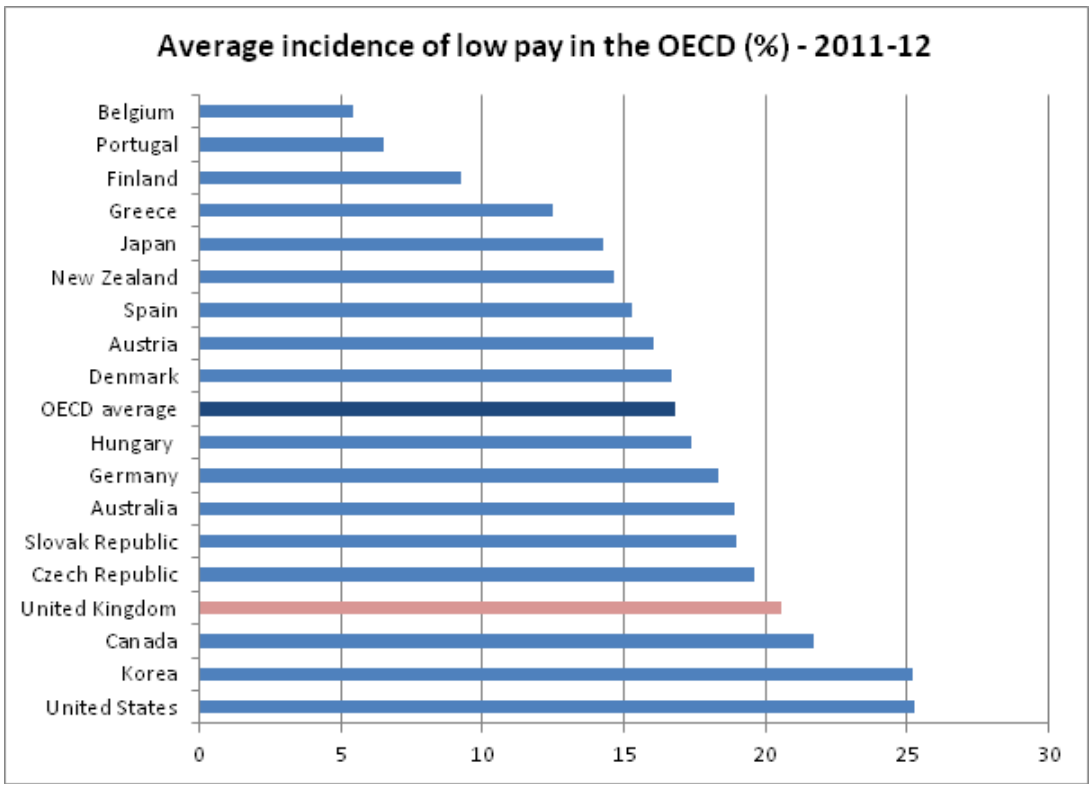
[23] Paull, G. and Patel, T. (2012) *An international review of skills, jobs and poverty* York, Joseph Rowntree Foundation
[24] See, for example, Bennett, F. (2014) "The living wage, low pay and in-work poverty: rethinking the relationships" *Critical Social Policy* 34 (1) 46-65
[25] Whittaker, M. and Hurrell, A. (2013) *Low Pay Britain 2013* London: Resolution Foundation
[26] *ibid*
[27] Figures in this section are drawn from the analysis in Whittaker, M and Hurrell, A. (2013) *Low Pay Britain 2013* London: Resolution Foundation
[28] The London Living Wage rate, at £8,80, is higher than elsewhere in the UK, where the rate is currently £7.65.
[29] Whittaker, M. and Hurrell, A. (2013) *Low Pay Britain 2013* London: Resolution Foundation
[30] LPC (2012) *National Minimum Wage: Low Pay Commission Report 2012*

trade union members.[31]

Drivers and consequences of low pay

The incidence of low pay in the UK is high by international standards, as shown in Chart 2.1, below[32]. Countries such as Belgium, Portugal and Finland have rates of low pay less than half that of the UK.

Chart 2.1: Incidence of low-wage work internationally



The reasons for the UK's high rates of low pay have been long debated. A poor record on social mobility, serious skills deficits within the workforce and the overall structure of an increasingly flexible, service-centred labour market have all been linked to the problem. As early as the 1980s, Finegold and Soskice proposed that the UK labour market was becoming trapped in a 'low-wage, low-skills equilibrium', as skilled or semi-skilled manufacturing jobs were replaced with less-skilled employment[33]. Lower-skilled staff subsequently produced lower quality goods and

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[31] TUC Commission on Vulnerable Employment (2008) *Hard Work, Hidden Lives: The Full Report on Vulnerable Employment* London: TUC
[32] The low pay measure used by the OECD is two-thirds of gross median hourly earnings for full-time rather than all employees.
[33] Finegold, D. and Soskice, D. (1988) "The Failure of Training in Britain; Analysis and Prescription" in *Oxford Review of Economic Policy* 4(3) 21-53

services, which resulted in more marginal returns and reduced wages, and a cycle of reduced demand for skills became self-reinforcing, with relatively few employers offering work-based training and low education participation rates amongst young people. More recent empirical work in key low-wage sectors[34] shows that due to features of the UK's institutional and regulatory environment, firms in these sectors, especially smaller firms, predominantly deploy a competitive strategy based on low-skill, low-cost and low-value added. This is reflected in relatively poor productivity performance compared to many other advanced economies[35]. These low-cost, low-skill product strategies have implications for low-paid workers beyond simply the pay packet; two consequences are the insecurity of low-paid work and limited opportunities for earnings mobility. Together, this means that low-wage jobs often operate as dead-ends, rather than as an 'escalator' into employment offering better wages and prospects[36].

Low pay, insecurity and churn

Low-wage jobs are more likely to be found in companies with low-cost product market strategies, which informs the organisation of work, job design and human resource (HR) practices[37]. One element of this is reliance on a core-periphery model of staffing, with a core of permanent workers, supplemented by the use of peripheral, temporary workers, often employed through agencies[38]. This contributes to what has become termed 'the low-pay, no-pay cycle', with workers 'churning' between unemployment and low-paid work. Recent analysis shows that almost half of men and a third of women making a new claim for Jobseekers Allowance (JSA) were doing so within six months of a previous claim, a level that has remained more or less stable since the late 1990s (after falling and then rising in the recent recession)[39]. Temporary work is a key factor in the low-pay, no-pay cycle – one study found a third of repeat JSA claimants left their last job because it was temporary and almost half said that their current or most recent job was not permanent[40]. However contractual status is not the only thing that matters, other aspects of poor work quality play a role too[41]. Indeed, comparative EU research

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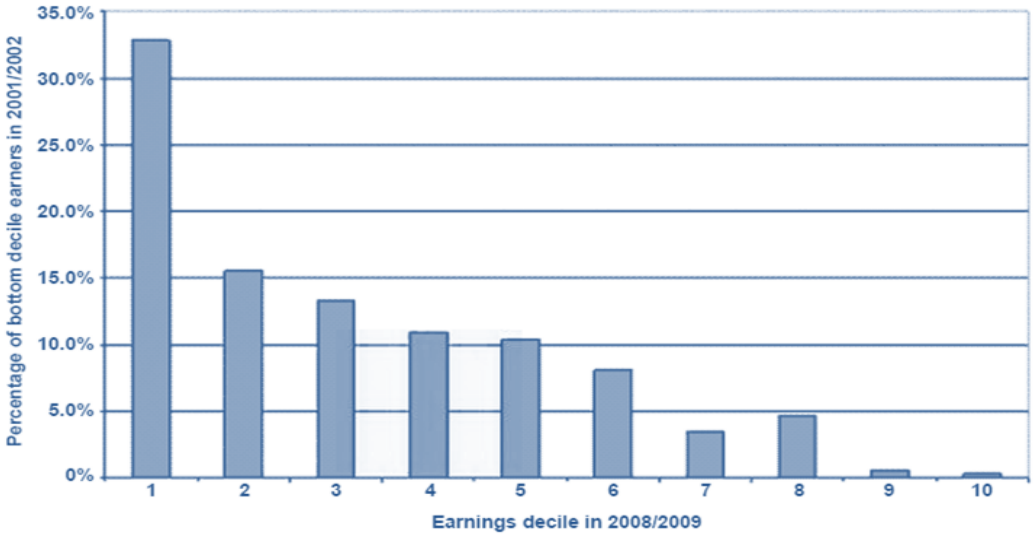
[34] Lloyd, C., Mason, G. and Mayhew, K. (eds.) (2008) *Low-wage work in the United Kingdom* Russell Sage Foundation
[35] Brinkley, I. (2014) *The Low Pay Challenge: A TWF Provocation Paper* London: The Work Foundation
[36] Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* London: The Work Foundation
[37] Wright, J. and Sissons, P. (2012) *The Skills Dilemma: Skills under-utilisation and low-wage work* London: The Work Foundation
[38] Metcalf, H. and Dhudwar, A. (2010) *Employers'; role in the low-pay no-pay cycle* York: Joseph Rowntree Foundation
[39] MacInnes, T., Aldridge, H., Bushe, S., Kenway, P. and Tinson, A. (2013) *Monitoring poverty and social exclusion 2013* York: Joseph Rowntree Foundation
[40] Carpenter, H. (2006) *Repeat Jobseeker's Allowance spells* DWP Research Report No 394
[41] Shildrick, T., Macdonald, R., Webster C. and Garthwaite, K. (2012) *Poverty and Insecurity: Life in Low-Pay, No-Pay Britain*. Bristol: The Policy Press

shows that temporary workers in the UK face lower poverty levels, relative to permanently employed workers, than in a number of other EU countries, primarily because of the low level of employment protection legislation in the UK afforded to workers on permanent contracts.[42]

Low pay and progression

Another consequence of the UK's low-wage, low-skills equilibrium is the limited opportunities for movement out of low pay across the life course. The shift to a knowledge-based economy and the 'hollowing out' of middle-wage jobs, exacerbated by the recent recession, creates additional barriers to earnings mobility[43]. While low-paid work can be useful as a stepping stone at the start of a career, enabling the worker to gain experience and skills, or to balance paid work with other activities (such as education) before moving on to better pay, it is more problematic if it persists over a longer period – with implications for child poverty and for poverty in later life. A number of analyses suggest that there is considerable persistence to low pay in Britain, particularly among certain groups of workers and in certain types of jobs.

Chart 2.2: Persistent low pay 2001/2 - 2008/9



Source: British Household Panel Survey, 2001/2002: 2008/2009

Our earlier analysis for the Bottom 10 Million programme[44] showed that of those workers in the bottom 10 per cent of earners in 2001/2, a third remained in the

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[42] Van Lancker, W. (2012) "The European world of temporary employment" *European Societies* 14 (1) 83-111.
[43] Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* London: The Work Foundation
[44] *ibid*

bottom decile of earnings seven years later (in 2008/9) (see Chart 2.2) and over 60 per cent remained in the bottom three deciles, indicating that much movement out of low pay is 'short-range'.

Subsequent analysis by the Resolution Foundation[45], examining a 10-year period, shows a similar pattern: over a quarter of those low-paid in 2002 remained in persistent low pay over the whole decade to 2012 (a significant number of whom were cycling in and out of low-paid work), while just less than half moved out of low pay at some point only to move back into it, and only a fifth of low-paid workers moved into a consistently higher pay bracket. Again, the analysis indicates considerable fluctuation around the low pay threshold and short-range movement, but limited long-range, sustained moves out of low pay.

The analysis also showed that those more likely to be stuck in low pay for longer periods were:

- Women;
- Older workers;
- Those without qualifications;
- Part-time workers;
- In the private sector;
- In smaller workplaces;
- In sectors such as manufacturing, wholesale and retail, or accommodation and food services; and
- In occupations such as caring, leisure and other services, sales and customer services, process, plant and machine operatives, and elementary occupations.

Conversely, escaping low pay was associated with working in the public sector. Switching jobs had ambiguous effects – in general job mobility had a negative impact on wage progression, however moving out of a low-paying occupation or sector into one with better pay had positive effects.

This chapter has examined the extent and nature of the low wage challenge in the UK; not only does the UK have a persistently high share of low-wage jobs in international perspective, this is also associated with other negative aspects of job quality which have problematic consequences for individuals caught in low pay. The next chapters examine in more detail how these issues can be addressed.

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[45] Hurrell, A. (2013) *Starting out or getting stuck? An analysis of who gets trapped in low-paid work – and who escapes* London: Resolution Foundation

Chapter 3 Upgrading pay and job quality

Measures to directly improve pay and job quality represent a move away from the traditional focus of the policy agenda in recent years, shifting attention towards the demand side (the role and practices of employers), rather than the supply side (such as efforts to upskill low-paid workers to allow them to progress). The central idea is that employers face alternatives when it comes to their employment practices and HR systems; that the decisions they take can have significant implications for the quality of jobs; and that policy can in some cases be used to influence these decisions.

Numerous studies attest to the significance of 'firm effects' in determining wage rates, even when controlling for other factors. For example, Groshen found that firm effects accounted for between 31 and 51 per cent of wage variation between firms.[46] US commentators have also highlighted the contrasting employment policies pursued by otherwise similar supermarket chains, such as Costco and Wal-Mart[47]. Moreover, HR policies tend to cluster, with the lowest-paying firms also less likely to provide employment-related benefits and training[48]. In the UK, a study of low-paid jobs across a range of sectors found that employers in the same sector, with similar demands, labour requirements and labour supply, nonetheless used different human resource models, and that differences in firm ethos and organisational aims were important factors in this[49].

This chapter addresses two strategies for upgrading low-wage work. The first involves setting a wage floor to improve the pay of workers directly, either through the use of a statutory minimum wage, collective bargaining structures or a targeted campaign (e.g. living wage campaigns). The second approach is broader and involves challenging the low-value added business models used in many low-wage sectors in the UK. There is less policy and political consensus regarding the appropriate options here; we discuss a range of possibilities including business support and regulatory change to facilitate improvements in skills demand, job

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[46] Groshen, E. (1991) "Sources of Intra-Industry Wage Dispersion: How much do employers matter" in *The Quarterly Journal of Economics* 106:3

[47] Osterman, P. (2008) "Improving Job Quality: Policies aimed at the demand side of the low-wage labour market", 42: http://web.mit.edu/osterman/www/revised%20ostermanupjohn.pdf

[48] Family and Work Institute, (2002) *National Study of the Changing Workforce*. This revealed that, for example, 46.5 per cent of low-wage employees reported that their firms offered training, compared to 72.3 per cent of the rest of the labour force: *familiesandwork.org/site/work/workforce/2002nscw.html*

[49] Metcalf, H. and Dhudwar, A. (2010) *Employers'; role in the low-pay no-pay cycle* York: Joseph Rowntree Foundation

design, HR practices and technological innovation in the low-wage sectors. The chapter examines both national and international approaches, and assesses their potential for tackling the low pay challenge in the UK.

Setting wage standards

Many countries have relied on a combination of collective bargaining and wage floor interventions, such as legal minimum wages, to limit low pay. In some cases extensive collective bargaining existed alongside minimum wages, as in France, while in others the collective bargaining system alone was seen as sufficient, as in Germany. In countries where collective bargaining has been historically weak, as in the US, greater reliance has been placed on federal and state-level minimum wages.

Over the last three decades, however, collective bargaining coverage has fallen and has often become less effective in low-paid industries. This has led to a swing in favour of legally enforced minimum wages. For example, after much debate about rising rates of low pay that collective bargaining structures appeared unable to address, in 2014 Germany became the latest European country to implement a statutory minimum wage. In the UK, the National Minimum Wage was introduced in 1999 in recognition of the fact that the wages of the very low paid were falling relative to the average following the abolition of the sector-based Wages Councils and the continued contraction of collective bargaining coverage in the private sector. This section discusses the role of collective bargaining and legislative 'wage floors' in turn.

Collective Bargaining

Collective bargaining, although witnessing a decline in recent decades, continues to be an important means of setting wage floors, particularly in some northern European countries where union density remains comparatively high. At the international level, research has found a positive association between various elements of wage setting institutions (such as union density, union coverage and the centralisation of collective bargaining) and a reduced proportion of workers in low-wage employment.[50] For example, the Nordic countries and Finland currently possess the highest rates of union density in the OECD and also some of the lowest rates of low-wage work.[51] Industrial relations in these countries tend to favour consensus, with collective bargaining agreements and employment legislation

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[50] Lucifora, C. et al, (2005) "Low-Wage Employment in Europe: A review of the evidence" in *Socioeconomic Review,* 3:2; Grimshaw, D. (2011) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO
[51] OECD Statistics: http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN *[Accessed 07/07/14]*

based on negotiation between unions, employers and government. This ensures both an active voice for workers and the buy-in of employers.

There are two hypothesised reasons for the link between collective bargaining coverage and low-wage employment. First, wages set through collective bargaining may influence wages elsewhere in the labour market. Second, collective bargaining may "take wages out of competition" and encourage firms to compete on quality rather than price.[52]

In the UK, the decline in union density and recognition has been particularly steep, and some studies have linked this to the rise of low pay.[53] In sectoral terms, there does appear to be a link between unionisation and wage levels. The proportion of workers that saw their pay set through collective bargaining in 2012 was less than 4 per cent in hospitality, 12 per cent in administration and business support (which includes cleaning and security jobs) and 15 per cent in distribution – some of the key low pay sectors. This compared to 16 per cent in the private sector overall.[54] However, there are also indications that the union wage premium has fallen over time[55]. Moreover, the existence of extensive collective bargaining coverage has not prevented significant increases in the incidence of low pay in countries such as Denmark and Germany, while low pay remains low and has fallen somewhat in Japan where union density is comparatively low. This suggests a complex relationship between collective bargaining structures and the share of low-wage jobs in the economy – the latter will also be influenced by changes in industrial structure and the nature of new job generation.

These concerns around the effectiveness of collective bargaining as a tool for tackling low pay in the current context, as well as its declining coverage and influence in both the UK and across the OECD, mean that there is currently little enthusiasm amongst policy makers and political parties in the UK to revive its role. Instead, the focus in recent years has been the use of legislation to enforce a statutory minimum wage.

The National Minimum Wage and the 'Living Wage'

Introduced in the UK in 1999, the National Minimum Wage (NMW) has lifted millions of people out of very low pay and has been transformed from a highly controversial

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[52] Grimshaw, D. (2011) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO

[53] Lloyd, C., Mason, G. and Mayhew, K. (eds.) (2008) *Low-wage work in the United Kingdom* Russell Sage Foundation

[54] BIS (2013) Trade Union Statistics. These estimates are derived from the household Labour Force Survey.

[55] Bryson, A. (2002), *The Union Membership Wage Premium: An analysis using propensity score matching,* London: London School of Economics Centre for Economic Performance.

policy to an aspect of wage-setting policy widely accepted across the political spectrum. Despite initial dire predictions of the likely impact of the NMW on employment rates, with the business community warning of two million unemployed, these results have failed to materialise. As the first chair of the Low Pay Commission (established to oversee the introduction of the NMW) explains, the context fifteen years later could not be more different; "*the minimum wage enjoys broad political support and the academic consensus shows clearly that it boosted earnings without causing unemployment.*"[56]

With the NMW now so widely accepted, policy arguments have shifted towards whether it can be further deployed as a tool to tackle low pay and poor quality jobs more generally. The rate of the NMW is significantly lower than the low pay threshold. In theory, the NMW can have spillover or 'ripple' effects; that is raising pay not just at the lower end but further up the wage distribution, for example because employers wish to restore pay differentials within their workforce by skill or seniority.[57] However, this effect has been less evident than anticipated in the UK, and recent data suggests that the NMW has instead led to low wage compression, with the number of employees clustered at or just above the NMW growing substantially since the economic downturn in 2008.[58]

Moreover, the real value of the NMW has also been quite significantly eroded in recent years. After a strong start which saw real terms and relative growth for the NMW, this trend reversed in 2008. When adjusted for inflation, the NMW is now worth less than it was in 2004, and even after its planned increase in October 2014, it will still be no higher than its 2005 level in real terms (although this should be viewed in the context of falling real wages across much of the wage distribution). As a proportion of median earnings, the UK minimum wage also remains relatively low compared to other countries (see Figure 3.1). Finally, non-compliance with the NMW, although relatively low, has risen in recent years; after remaining stable at around 0.5 per cent of all main jobs between 2000-2004, it increased year-on-year, reaching 2.1 per cent in the first quarter of 2012.[59]

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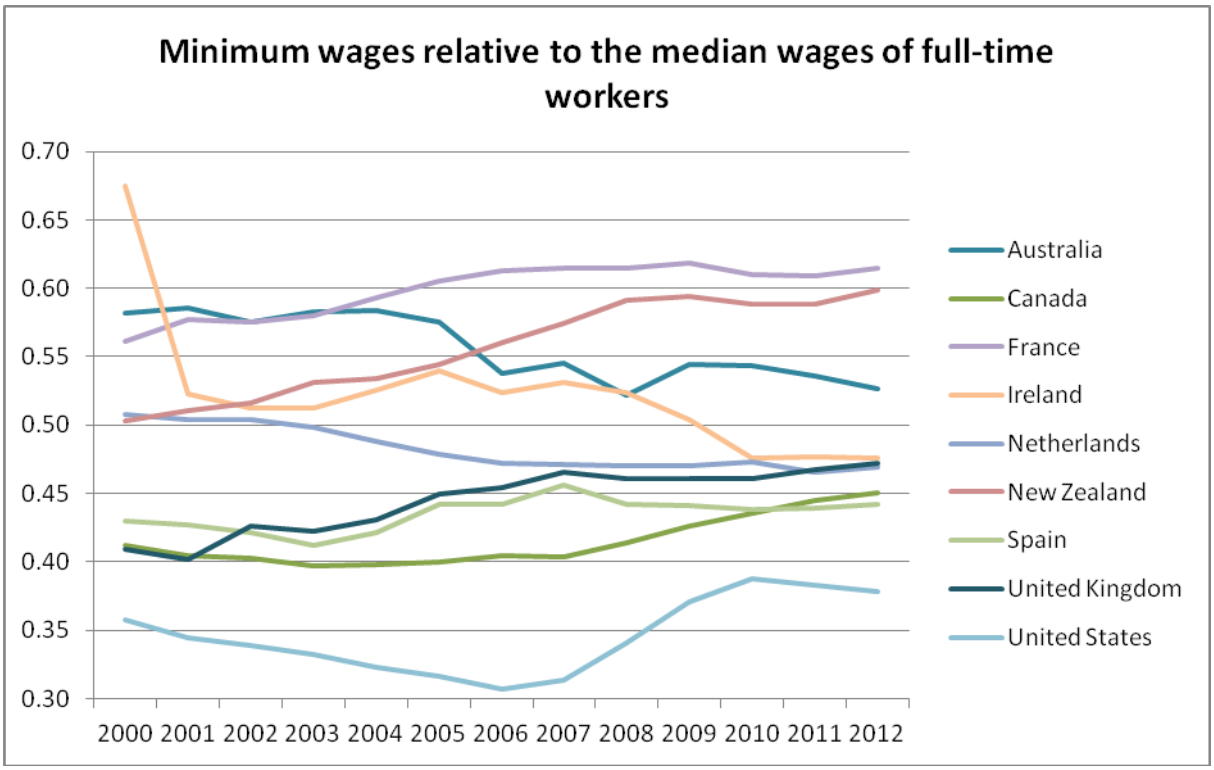
[56] Resolution Foundation (2014) *More than a minimum: The Resolution Foundation review of the future of the National Minimum Wage: The final report* London: The Resolution Foundation, p.5.

[57] Vandekerckhove, S. et al (2014) "Reassessing the impact of minimum wages on wage dispersion and employment: Evidence from an institutionalised wage bargaining system" Paper for PEAC Conference, Brussels, 5th-7th March 2014: http://www.progressiveeconomy.eu/system/files/papers/Vandekerckhove%20paper_peacVGV.pdf *[Accessed 07/07/14]*

[58] Resolution Foundation (2014) *More than a minimum: The Resolution Foundation review of the future of the National Minimum Wage: The final report* London: The Resolution Foundation, pp 32-2.

[59] le Roux, S. et al (2013) *An Investigation into the Extent of Non-Compliance with the National Minimum Wage,* London: NIESR

Figure 3.1 Comparative value of the UK National Minimum Wage



Source: OECD

So does this evidence suggest that the NMW is being under-utilised as a tool to address low wages and tackle poverty? Should the UK place more emphasis on a 'standard setting' approach? Indeed, a number of campaigners and commentators have begun to call for rises in the NMW, bringing it into line with the level of the Living Wage[60], currently set at £7.65 outside London, compared to the NMW's hourly rate of £6.31. The Living Wage rate is very close to the low pay threshold (two-thirds of median income), which in 2013 stood at £7.71, making it a useful tool in this regard.[61] There have also been debates about expanding the remit of the Low Pay Commission to encompass a more proactive approach to tackling the wider problem of low pay beyond the NMW.[62] The claim is that the absence of any of the predicted negative effects of the NMW on employment means that it should be used much more proactively in the fight against low pay. Indeed, projections suggest that raising the NMW to the level of the Living Wage would increase the

[60] The Living Wage is distinct from the NMW as it is based on the cost of living, rather than what employers can afford to pay. The uprating each year is based on a combination of rising costs, any changes in what people define as a 'minimum', and what is happening to wages generally. This is in contrast to the sole focus on macroeconomic measures, such as inflation and growth, employed by the LPC when setting the level of the NMW.
[61] ONS (2013) *Annual Survey of Hours and Earnings: Provisional Results* London: ONS, p. 9
[62] Plunkett, J. and Hurrell, A. (2013), *Fifteen Years Later: A Discussion Paper on the Future of the National Minimum Wage and the Low Pay Commission,* London: The Resolution Foundation

earnings of UK employees by £6.5bn, with the Treasury saving around £3.6bn through increased tax receipts and national insurance contributions and reduced spending on tax credits and other in-work benefits.[63]

The merits of legally enforcing the Living Wage as a national minimum have, however, been disputed by many economists. Coats– a former member of the LPC – points out that the effectiveness of the NMW is dependent on striking a balance between lifting as many as possible out of extreme low pay and finding a rate which is not so high as to create adverse employment effects[64]. He argues, along with many other economists, that evidence on minimum wages from across the developed world do find that those with the highest levels (generally between 50 and 60 per cent of the median wage) face negative effects, either in terms of employment or enforcement. Projections from the IPPR and the Resolution Foundation confirm this view, suggesting that overall labour demand would fall by around 160,000 were the NMW raised to the level of the Living Wage – although the authors admit this may be a slight overestimate.[65] Their conclusions are also disputed in other quarters; Reed points out that the potential for the Living Wage to induce productivity gains, reduce turnover and stimulate the economy means its introduction would be unlikely to result in any substantial aggregate employment losses.[66] Nevertheless, concerns about potential drawbacks are widespread and none of Britain's mainstream political parties is currently pressing for the NMW to be raised to the level of the Living Wage.

This is not to say that raising the NMW to a higher level than it is currently should play no role in a strategy to reduce low pay. One reason to raise the wage floor, even to a level below the low wage threshold, is its potential positive impact on productivity levels in the low pay sectors. This argument is based on the idea that plentiful availability of cheap labour undermines employers' incentives to adopt higher-wage business models. Conversely, setting a higher wage floor could provide employers with an incentive to boost efficiency and productivity by investing in the skills of their employees, to justify their higher wage. This could result in a 'virtuous cycle' of higher pay, better incentives for skill development and higher productivity[67]. Acemoglu and Pischke point to this effect in Europe and Japan, where labour markets are more regulated and wage structures more compressed

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[63] Lawton, K. and Pennycook, M. (2013), *Beyond the Bottom Line: The challenges and opportunities of a living wage,* London: IPPR and the Resolution Foundation, p.5
[64] Coats, D. (2007) *The National Minimum Wage: Retrospect and Prospect* London: The Work Foundation
[65] Lawton, K. and Pennycook, M. (2013), *Beyond the Bottom Line: The challenges and opportunities of a living wage,* London: IPPR and the Resolution Foundation, p.5
[66] Reed, H. (2013) *The Economic Impact of Extending the Living Wage to All Employees in the UK,* London: Landman Economics.
[67] Grimshaw, D. (2011) *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, Conditions of Work and Employment Series, No. 28, ILO

and there is a greater contribution to training made by employers.[68]

The evidence to date for this kind of effect in the UK is somewhat unconvincing, however. The LPC commissions research on a range of effects of the NMW, including productivity, and this evidence base presents a mixed picture. On balance it seems that the NMW has had a positive, though small, effect on the productivity of businesses in the UK, but has had limited effect on the provision of training by employers[69]. It may be, however, that this limited effect is because it has been set at a relatively low level and that a higher wage floor would spur greater improvements. There is some emerging evidence that employers who have adopted the higher level Living Wage have seen a range of business benefits[70], although limited take-up means that there has been no fully robust assessment to date of the impact of the Living Wage on productivity. The effect of wage floors on business strategies in specific low-wage sectors is an area that requires further research.

Beyond these debates about the effects of raising the NMW to the level of the Living Wage, there is also a wider role for the Living Wage movement in promoting higher wages among businesses in sectors that can afford to pay more than the current rate of the NMW.[71] In the UK and elsewhere, there have been high-profile campaigns to encourage employers to pay the Living Wage. One example is the work of Citizens UK, a coalition of trade unions and community groups, who have successfully targeted and exposed profitable multi-national corporations for failing to pay the Living Wage.[72]

The public sector has been one key area of focus for these campaigns. The public sector workforce itself is already largely covered by the Living Wage; in 2013 hourly gross pay at the bottom tenth percentile was £8.00 in the public sector (rising to £10.27 in London). Public procurement, on the other hand, is a potentially powerful lever, and there are already pressures on public bodies to include living wage

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[68] Acemoglu, D. and Pischke J. (1999), "The Structure of Wages and Investment in General Training" *The Journal of Political Economy,* 107:3.
[69] Resolution Foundation (2014) *More than a minimum: The Resolution Foundation review of the future of the National Minimum Wage: The final report* London: The Resolution Foundation
[70] Living Wage Commission (2014), *Work That Pays: The final report of the Living Wage Commission,* London: The Living Wage Commission, p.17.
[71] The Resolution Foundation has published exploratory analysis looking at the average wage increase if the NMW was raised to the level of the low pay threshold, and the wage bill as a proportion of total business costs, by sector. This analysis suggests that the retail sector – more specifically large retailers – are in a better position to pay higher wages than other low-wage sectors. See Resolution Foundation (2014) *More than a minimum: The Resolution Foundation review of the future of the National Minimum Wage: The final report*, pp51-52.
[72] Citizens UK, The Living Wage: http://www.citizensuk.org/campaigns/livingwage/ *{Accessed 6/7/14]*

standards in their commissioning criteria.[73] The recently published Living Wage Commission report[74] warned against making this an explicit requirement of public sector procurement, however, as it is likely to exclude some SMEs from competing for public sector contracts. However, they argued that commissioning should be focused more on service value rather than on simple spreadsheet costs. Other research suggests that this could be achieved through public bodies adopting policies for 'social / community benefit' as an aspect of sustainable procurement policies[75].

While increasing the numbers paid the Living Wage via the public sector will have some impact on the wider market, incentivising uptake in the private and third sectors will be required to ensure the initiative gains real momentum. There have been a number of proposals around how this could be achieved. All have been focused on the use of the significant cost savings to the Exchequer that accrue from raising wage levels, both in terms of increased tax revenues and reduced spending on in-work benefits. While the potential for a monetary incentive is therefore clear, there has been little agreement on where it should be offered: to employers (as proposed by the Labour Party in plans to offer tax breaks to firms paying the Living Wage[76]), to local authorities (as under the IPPR and Resolution Foundation's 'Living Wage Zones' proposal[77]), or to campaigning organisations. It is important that incentives are administered where they are most likely to have an impact by encouraging additional take-up of the Living Wage beyond what would otherwise be achieved. We feel that this is currently not known and that more research is required to explore the mechanisms of such an incentive and to determine how it should best be administered.

Better mapping and understanding of the impact of living wage campaigns more generally will also be central to expanding their reach and enhancing their effectiveness as a tool for leveraging the Living Wage. Generally, as we discuss in more detail in a TWF public policy provocation[78] issued alongside this paper, the Living Wage campaign in the UK might be enhanced by adopting some of the features which have helped make implementation of the NMW a success. This could include a simplified and standardised methodology for calculating the Living

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[73] Unison (2012) "A Living Wage must be guaranteed in public sector contracts": http://www.unison-scotland.org.uk/news/2012/novdec/0511.htm *[Accessed 04.07.14]*
[74] Living Wage Commission, (2014) *Work That Pays: The final report of the Living Wage Commission,* London: The Living Wage Commission, p.33
[75] MacFarlane, R. with Anthony Collins Solicitors LLP (2014) *Tackling poverty through public procurement* York: Joseph Rowntree Foundation
[76] BBC News, "Ed Miliband pledges Living Wage tax breaks for firms", 3rd November 2013: http://www.bbc.co.uk/news/uk-24786397 *[Accessed 04/07/14]*
[77] Lawton, K. and Pennycook, M. (2013), *Beyond the Bottom Line: The challenges and opportunities of a living wage,* London: IPPR and the Resolution Foundation, p.5
[78] I. Brinkley (2014) *The Low Pay Challenge: A TWF Provocation Paper*, London: The Work Foundation.

Wage, further moderation in the rate to encourage greater take-up by employers, and more judgement on annual upratings rather than fixed formulae. Other changes that might help living wage campaigns include a requirement for companies to be transparent about the proportion of their workers paid below the Living Wage, which could enable more effective targeting and campaigns.

Changing employer business models through skills utilisation

While the setting of legal wage floors such as the NMW provides a means of tackling the worst excesses of low pay and – as discussed – some progress can be made in increasing the effectiveness of these kinds of interventions, in their current form wage floors cannot solve the issue of low pay more generally. Attention must also be directed to the low-skill, low-cost business models used by many low-wage employers, which effectively prevent significant wage growth in many areas.

UK governments have traditionally been reluctant to engage in this agenda, seeing business models as the legitimate preserve of employers. Recently, however, there are some signs that politicians and policymakers are beginning to take interest in employers' involvement in, and 'ownership' of, the skills system. At the national level, initiatives have included UKCES' Employer Ownership of Skills pilot, which provides funding based on competitive tender to businesses wishing to invest in the skills of their workforce.[79] At the local level, there have also been moves to employ new powers and funding for this purpose, such as through the City Deals, which have devolved a portion of central government skills funding. The Sheffield City Deal, for example, seeks to actively involve local employers in the delivery of skills training.[80] However, while these moves demonstrate recognition of the significant role that employers can play in the skills system, the current focus is very much on responding to existing employer demand for skills, rather than a more challenging agenda around *raising* employer demand for skills through changes to work organisation and the utilisation of skills in the workplace.

Skills utilisation

A previous report from our Bottom 10 Million programme[81] highlighted the issue of skills utilisation, arguing that limited employer demand for and poor utilisation of skills is one of the key factors underpinning poor quality, low-wage work. It found that skills under-utilisation affects a higher proportion of the UK workforce than does skills gaps or skills shortages. Skills under-utilisation was found to be more

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[79] UKCES (2011), *Employer Ownership of Skills: Securing a sustainable partnership for the long-term,* London: UKCES
[80] Sissons, P. and Jones, K. (2014), *How can Local Skills Strategies help Low Earners?* York: Joseph Rowntree Foundation.
[81] Wright, J. and Sissons, P. (2012), *The Skills Dilemma: Skills Underutilisation and Low-Wage Work,* London: The Work Foundation

prevalent amongst people in jobs requiring little knowledge content, compared to knowledge workers[82], and the proportion of employees reporting that they feel 'over-skilled' is highest in the low-skill/low-pay sectors and occupations.[83]

Improvements in the utilisation of skills have the potential to improve productivity for employers, create better prospects for higher pay and progression for employees, and produce better-motivated and confident employees who are more satisfied with their work.[84] Although not common in the UK, many other countries have developed initiatives to address this issue. The Nordic countries, Germany, Finland and Ireland have all developed state-sponsored workplace development programmes.[85] Many of these initiatives are based on a tripartite structure, involving governments, trade unions and employer representatives. While there are overall aims, particularly around boosting innovation and tackling unemployment, projects are often initiated and funded at the level of the workplace. For example, the Finnish National Workplace Development Programme offers funding for individual workplace initiatives, as well as opportunities to promote networking between government, social partners, employers, educational and research institutions and similar international schemes. It also seeks to increase the use of research in the formation of workplace development initiatives.[86]

Within the UK, the Scottish Government has developed the strongest focus on this area, with an emerging programme of work around skills utilisation. In July 2009, the Scottish Funding Council (SFC) committed around £2.9 million in funding to 12 projects aimed at exploring the role that universities and colleges might potentially play in improving skills utilisation in the workplace. These included projects within the Scottish dairy industry, social care and engineering. While these trials remain at a relatively early stage, preliminary evaluations in 2011 suggested that strong relationships between employers and project staff, effective communication with employers, and demonstration of the up-front benefits to the organisation are the

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[82] Brinkley, I. et al. (2009) *Knowledge Workers and Work*, London: The Work Foundation
[83] Felstead, A. et al (2007) *Skills at Work, 1986-2006,* ESRC Centre on Skills, Knowledge and Organisational Performance: http://www.cardiff.ac.uk/socsi/contactsandpeople/alanfelstead/SkillsatWork-1986to2006.pdf *[Accessed 10/07/14].*
[84] Wright, J. and Sissons, P. (2012), *The Skills Dilemma: Skills Underutilisation and Low-Wage Work,* London: The Work Foundation.; Anderton, E. and Bevan, S. (2014) *Constrained Work? Job enrichment and employee engagement in low-wage, low-skill jobs* London: The Work Foundation.
[85] Keep, E., Mayhew, K. and Payne, J. (2006) "From Skills Revolution to Productivity Miracle – Not as easy as it sounds?" in *Oxford Review of Economic Policy* 22:4, p.544.
[86] EIRO online (1997) "The Finnish National Workplace Development Programme": http://www.eurofound.europa.eu/eiro/1997/07/feature/fi9707122f.htm; and Ramstad, E. (2009) "Promoting performance and the quality of working life simultaneously", *International Journal of Productivity and Performance Management*, 58:5.

most important factors in ensuring employer buy-in and effectiveness.[87] The Scottish Government has also partnered with Investors in People (IIP) Scotland to develop a toolkit for employers to make better use of the skills within their existing workforce.[88] However, the initial evaluations acknowledge that "*working inside organisations to help change organisational cultures and ingrained practice is challenging and calls for particular skills and expertise*".[89] This is likely to take time and further research to develop.

Nevertheless, there continues to be a great deal of scepticism amongst employers and policymakers about the extent to which policy could and should be geared towards the organisation and practices of individual workplaces. Evaluation evidence from the US and Australia suggests a number of reasons. Firms do not always see a quick payback, fear losing higher skilled workers to rival organisations, are not confident they can predict changing skill requirements and lack knowledge of education and training systems. SMEs, in particular, may lack the HR capacity to make significant changes to their practices.[90] In more 'liberal' labour markets, short-term shareholder pressures also frequently lead employers to revert to traditional practices of downsizing, outsourcing and the use of non-standard employment contracts in response to competitive pressures. This issue was highlighted during Australia's attempt to address skills utilisation. Its use of national and local funding to develop 'skills ecosystems' – networks designed to provide employers with an oversight on skills issues in their sectors and support to tackle these – failed to produce deep or lasting changes, according to evaluations.[91] This raises the question of how much progress can be made in this area, while the opposing forces and pressures of a liberal, flexible labour market remain.[92] Amongst policymakers, there is suspicion at attempts to influence employment practices, with an assumption that employers tend to be best placed to make these decisions.[93]

This is not to say, however, that possible mechanisms do not exist. Philpott recently reviewed the potential contribution of human resource management and development practices (HRM/D) to bring business benefits, in terms of increased

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[87] Payne, J. (2011) "Scotland's Skills Utilisation Programme: An interim evaluation", *SKOPE Research Paper No. 101*, p. 41.
[88] The Scottish Government, "Reaping the Benefits of Skills": http://www.scotland.gov.uk/Topics/Education/skills-strategy/making-skills-work/utilisation
[89] Payne, J. (2011) "Scotland's Skills Utilisation Programme: An interim evaluation", *SKOPE Research Paper No. 101*, p. 41.
[90] Osterman, P. (2008) "Improving Job Quality: Policies aimed at the demand side of the low wage labour market", 42: http://web.mit.edu/osterman/www/revised%20ostermanupjohn.pdf
[91] Buchanan, J. et al (2010), Skills demand and utilisation: An international review of approaches to measurement and policy development', *OECD Local Economic and Employment Development Working Papers*, p. 36
[92] Payne, J. (2011) "Scotland's Skills Utilisation Programme: An interim evaluation", *SKOPE Research Paper No. 101*, p. 50.
[93] Keep, E., Mayhew, K. and Payne, J. (2006) "From Skills Revolution to Productivity Miracle – Not as easy as it sounds?" in *Oxford Review of Economic Policy* 22:4.

productivity, and to improve conditions for low-paid employees.[94] The review found evidence of good practice among both aspiring small employers and large corporate businesses in adopting high performance working (HPW) and Employee Engagement practices, which could be further strengthened and built on through supporting a system of advocacy and peer-to-peer mentoring. The quality of leadership and management in businesses within the low pay sectors was also highlighted as crucial in driving any change.

More generally, it has been increasingly recognised in policy circles that management and leadership skills within SMEs are critical in moving businesses towards higher-wage business models. In 2012, BIS established the Growth Accelerator, building on previous initiatives, to deliver this type of support nationally. Other institutions also offer similar programmes and some of those which have been independently evaluated – such as the LEAD programme delivered by Lancaster University – show good results on productivity (measured by increased sales per employee).[95] Reinforcing the focus of these existing resources on improving SME managerial capability through schemes of this type, especially in low-wage sectors, may prove more cost-effective than across the board incentives and tax cuts.

In the context of the localism agenda and the moves to devolve some power and funding for skills to employers and local areas, there is also growing interest in the potential role of Local Enterprise Partnerships (LEPs) in increasing employer demand for skills at a local level.[96] As increasingly important actors at the local level, there may be scope for LEPs to take a lead on connecting local businesses with programmes designed to offer business support and assistance with incremental innovation. This could be targeted at particular sectors and organisations, such as SMEs, which may struggle to increase wages and lack support for investment and business development.

Other examples of good practice include statutory licensing systems. The Low Pay Commission cites the example of the security industry, where a system of statutory licensing linked to improved professionalism and the introduction of new technologies has paved the way for higher wages, reducing the share of security workers paid at or near the NMW. As this case suggests, the key may be to combine improvements in skills with new technologies and better work organisation.

However in order to move beyond isolated examples of good practice, a clear strategic lead from Central Government is necessary to raise the profile of this

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[94] Philpott, J. (2014) *Rewarding work for low-paid workers* York: Joseph Rowntree Foundation
[95] Wren, C. and Jones, J. (2012), *Quantitative Evaluation of the LEAD Programme, 2004-1*1, Newcastle University, Newcastle
[96] Sissons, P. and Jones, K. (2014) *How can local skills strategies help low earners?* York: JRF; City Growth Commission (2014) *Human Capitals: Driving UK metro growth through workforce investment* RSA and JRF

issue. This could be achieved through the development of a coordinated industrial strategy, covering the key low pay sectors, building on the recent extension of the Strategic Partnership for the retail industry. The strategy should include a clear focus on transferring best practice and lessons on tackling low productivity and improving progression across the low pay sectors.

Improving job quality

While wages are of course central to many of the challenges confronting employees at the bottom end of the labour market, pay is not the only issue. As discussed in the previous chapter, much evidence suggests that low-wage jobs tend to encompass other negative aspects, such as a lack of employment rights and benefits, insecurity and poor progression prospects. If we are to improve the lot of low-wage workers, finding ways to address these issues will also be needed.

Low-wage workers are less likely than those in higher-paid work to have access to a range of employment benefits. For example, workers on very low wages (those earning less than £109 per week) do not pay National Insurance contributions, which means that they are not automatically entitled to statutory sick pay or the basic state pension. Employers may also use more flexible forms of employment contract (such as employing temporary agency workers) to designate their staff as 'workers' rather than 'employees'; workers are not entitled to protection against unfair dismissal, maternity rights, redundancy rights and rights under TUPE.[97] Those in low-wage work are also less likely to receive benefits such as access to training and flexible working options.[98]

The most recent phenomenon highlighted by politicians and pressure groups has been the rise of 'zero hours' contracts, whereby employees are not guaranteed a regular or set number of hours each week.[99] This is a practice about which surprisingly little is known; even gaining an accurate estimate of the prevalence of zero hours contracts has proved challenging. In March 2014, a revised definition from the ONS found that the numbers of employees on zero hours contracts was far higher than previously believed, standing at nearly 583,000 in 2013. This is three times higher than the figure estimated when the Coalition came to power in 2010.[100] Employees on these contracts face unpredictable weekly hours and earnings and are sometimes precluded from turning down hours offered or taking on an additional

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[97] Brinkley, I. (2013) *Flexibility or Insecurity: Exploring the rise of zero hours contract,* London: The Work Foundation
[98] Schmuecker, K. (2014) *The Future of the UK Labour Market,* York: Joseph Rowntree Foundation
[99] Brinkley, I. (2013) *Flexibility or Insecurity: Exploring the rise of zero hours contract,* London: The Work Foundation
[100] Watt, N. "Figures show huge rise in zero-hours contracts" in *The Guardian,* 10th March 2014: http://www.theguardian.com/uk-news/2014/mar/10/rise-zero-hours-contracts

job. Average earnings of zero hours workers are often lower than those in regular work and around 20 per cent of zero hours employees felt they received lower hourly wage rates than colleagues on regular contracts – a trend that was more pronounced in the public sector.[101]

There are growing concerns that such practices bring severe risks and pressures for employees, particularly at the lower end of the earnings distribution, where the consequent income instability strains household budgets and increases the risk of poverty and debt. The Government has recognised that workers on low wages, employed on non-standard contracts within non-unionised sectors are 'vulnerable', in that their risk of being denied employment rights is high and they have little capacity to protect themselves.[102] However, the question of how these challenges should be addressed remains an open one.

One argument is that such employment practices allow employers to respond flexibly to fluctuations in demand, which helps them remain competitive. Any constraints placed on the ability of employers to use flexible staffing could result in employers reducing the total number of positions offered, thus eliminating a route into the labour market for many. Similarly, there may be good reasons why employees, even those on low wages, would opt for flexible contracts. Those with caring responsibilities and students may be keen to find work with hours that fit around other commitments, for example. Yet, disquiet about the growth in these non-standard contracts has continued to increase. ONS figures suggest that around one in three workers on a zero hours contract is concerned to increase the hours they work. The recent Pickavance review into the use of zero hours contracts highlights their disproportionate association with low-value business models, suggesting that they are now often used as a crude cost-reduction tool.[103]

We argue there is now a strong case for ensuring that flexibilities strike a better balance between the needs of the employer and those of the employee. For zero hours contracts, this could include offering workers the right to request a fixed-hours contract after six months of working reasonably regular shifts.[104] Across the board, tougher enforcement of existing employment rights – particularly for temporary or agency workers – as well as greater scope for unions to organise, could help to improve the lot of many low-paid workers. The Agency Workers' Directive, enacted in UK legislation in 2011, ensures that, after 12 weeks, agency workers attain the

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[101] CIPD (2013) *Zero hours contracts: Myths and Reality,* (London: CIPD, 2013).
[102] Pollert, A. and Charlwood, A. (2009), "The vulnerable worker in Britain and problems at work" in *Work, Employment, Society,* 23:343, p. 344.
[103] Pickavance, N. (2014), *Zeroed Out: The place of zero-hours contracts in a fair and productive economy:* *http://www.yourbritain.org.uk/uploads/editor/files/ZHCs_report_final_FINAL_240414.pdf [Accessed 03/07/14]*
[104] Alakeson, V. and D'Arcy, C. (2014) *Zeroing In: Balancing Protection and Flexibility in the Reform of Zero Hours Contracts,* London: The Resolution Foundation

same rights as their regularly-employed colleagues in areas such as leave, working time, wages, discrimination rights and health and safety. However, loopholes remain; under the legislation, agency workers directly employed by their employment agency may not be granted these rights, which TUC estimates suggest affects one in six agency workers.[105] However, there is limited research to date examining the impact of these changes on employer practices in sectors that rely heavily on agency work such as hospitality. More research is required to examine the effects of the legislation and whether tougher enforcement is necessary or whether loopholes in the legislation should be closed and/or rights strengthened further.

Improving the quality of low-wage work will therefore require more than a focus on mandatory wage floors alone. Issues around employers' attitudes and practices, workers' rights, insecurity, and the demand side for high quality jobs will also need to be addressed. If the pervasive challenge of low-wage work is to be met effectively, policymakers and campaigners will need to shift from a reactive approach, based on what is acceptable under current labour market conditions, towards a much more pro-active stance. This will encompass wider issues such as productivity, skills utilisation and increasing investment. Commitment from all sides will be required if the UK is to move into a 'virtuous cycle' of a higher-pay, higher productivity and higher skilled labour market.

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[105] TUC, "TUC Lodges Complaint Against Government For Failing to Give Equal Pay to Agency Workers": http://www.tuc.org.uk/workplace-issues/employment-rights/proposed-changes-law/basic-rights-work/tuc-lodges-complaint *[Accessed 03/07/14]*

Chapter 4 Moving on: policies for progressing out of low pay

While improvements in the wages and conditions of those in low-paid work are important – given that low-paid jobs are likely to be an important part of the labour market for the foreseeable future - a labour market that provides opportunities for people to progress in work according to their ability is also fundamental in enabling social mobility.[106] Yet currently too many workers remain stuck in low-wage work from one year to the next. Only about 12 per cent of the lowest earning 25-30 year olds in 2004 had experienced substantial wage progression by 2013, 10 years later.[107] This measure, which forms part of the government's core social mobility indicators, has remained remarkably stable in recent years suggesting that concerted action is needed if we are to boost wage progression among low-paid workers in the UK.

The classic idea of career mobility relates to internal labour markets, where an employee progresses through successive stages of work toward a higher position in a firm. Some employers and sectors have well-defined career ladders which facilitate such upward movement. Yet this is not common, especially in many low-wage sectors where flat organisational structures predominate[108]. It has also been argued that broader changes in the way that work is structured have reduced progression opportunities, with outsourcing and the loss of mid-level roles removing some of the rungs of the ladder, even in large organisations.[109]

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[106] Social Mobility and Child Poverty Commission (2013) *State of the Nation 2013: social mobility and child poverty in Great Britain*

[107] Wage progression in this instance is defined as the proportion of individuals in the bottom fifth of earners at age 25-30 that are 20 or more percentiles higher in the earnings distribution 10 years later. Source: Annual Survey of Hours and Earnings. It should be noted that a substantial proportion of the original sample (51 per cent) drop out over the ten year period, possibly because they have switched to self-employment, temporary or longer-term unemployment or inactivity, or because they have migrated or died. This group therefore have unknown progression outcomes. https://www.gov.uk/government/publications/social-mobility-indicators/social-mobility-indicators#proportion-of-the-lowest-earning-25-to-30-year-olds-that-experience-wage-progression-10-years-later (accessed10/07/2014)

[108] Lloyd, C., Mason, G. and Mayhew, K. (eds.) (2008) *Low-wage work in the United Kingdom* Russell Sage Foundation; Devins, D. with Bickerstaffe, T., Mitchell, B. and Halliday, S. (2014) *Improving progression in low-paid, low-skilled retail, catering and care jobs* Joseph Rowntree Foundation

[109] Grimshaw, D., Beynon, H., Rubery, J., and Ward, K. (2002) 'The restructuring of career paths in large service sector organizations:'delayering', upskilling and polarisation'. *The Sociological Review, 50*(1), 89-115.

Progression out of low pay is not simply about moving up within a firm though; changing jobs can also represent a key means of achieving wage increases. Small employers, in particular, may struggle to offer workers the opportunity to progress through a series of related job roles, whilst some sectors will have limited progression prospects.[110] Evidence from both the US and the UK suggests that switching occupations or sectors can lead to greater wage mobility for low-wage workers.[111]

In government policy, progression is often conceived narrowly in terms of improved earnings, whether achieved through movement into a better paid role or by a worker taking on more hours.[112] These are important goals but from the perspective of the worker other aspects of work may matter more, including working hours, job satisfaction, and the stability of the work. There is some evidence that progression can entail some form of trade-off between these qualitative aspects of work and higher remuneration.[113] This opens up the potential for a disparity between policy and individual perspectives on the desirability of wage or earnings mobility.[114]

Intuitively, in order to move from low-wage work into better-paid employment, a number of conditions have to be met. There needs to be a role for the worker to move into, whether through other workers moving on or through the creation of a new position; information about that role needs to be made available to low-wage workers; and the worker also needs to be able to do the role and have the desire to progress. Some of these factors are more amenable to policy intervention than others. This chapter reviews the evidence on different ways that workers can be supported to progress from low-wage work, whether through the provision of training subsidies, through services offered by labour market intermediaries or by way of

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[110] For analysis of wage mobility over a one year period in different sectors see Appendix 7 in Keohane, N. and Hupkau, C. (2014) *Making Progress: Boosting the skills and wage prospects of the low-paid*, The Social Market Foundation

[111] Andersson, F., Holzer, J. and Lane, J. (2005) *Moving Up or Moving On: Who Advances in the Low-wage Labor Market?* New York: Russell Sage Foundation; Hurrell, A. (2013) Starting out or getting stuck? An analysis of who gets trapped in low-paid work - and who escapes, Resolution Foundation

[112] See proposals for how in-work conditionality might operate within Universal Credit: DWP (2010) *Universal Credit: Welfare that works*, CM 7957; Pennycook, M. and Whittaker, M. (2012) *Conditions Uncertain: Assessing the implications of Universal Credit in-work conditionality*, Resolution Foundation

[113] Hoggart, L., Campbell-Barr, V., Ray, K. and Vegeris, S. (2006) *Staying in Work and Moving Up: Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*. DWP Research Report 381, Leeds: Corporate Document Services; Lloyd, C. and Payne, J. (2012) 'Flat whites – who gets progression in the UK café sector?' *Industrial Relations Journal*, 43 (1), pp. 38-52.

[114] For example, in a survey of benefit and tax credit recipients conducted in 2011, the majority (59 per cent) of respondents who were in part-time work thought that they would not be able to find someone to replace their role at home in order to take up a full-time position. See Tu, T. and Ginnis, S. (2012) *Work and the welfare system: a survey of benefits and tax credits recipients*, Ipsos Mori for the DWP, Research Report No 800.

interventions in the workplace. We consider the following approaches:

- Raising skill levels and ensuring wider recognition of skills;
- Facilitating job mobility;
- Designing in progression pathways.

Raising skill levels

There is clear evidence that higher levels of education and vocational training at the individual level are correlated with a reduced probability of experiencing low pay.[115] Low-paid staff who receive training also tend to see higher increases in their hourly earnings.[116] However, the extent to which any wage increases result from undertaking training is not always clear and many studies have failed to tease out the direction of the relationship between training and progression in work. One of the challenges here is that of selection bias – those workers who are perceived to have more productive characteristics may be more likely to be selected for training while also being more likely to be employed or promoted in the absence of training.[117]

While the evidence clearly shows that higher qualifications are correlated with higher earnings, the wider evidence on the role of training and upskilling in progression suggests the importance of context. In a review of the links between training and progression, Cheung and McKay find that the receipt of training had a small but weak effect on wages.[118] Wage returns also vary significantly by type of qualification, mode of course delivery and worker characteristics.[119] For example, National Vocational Qualifications at Level 2 are often deemed to be of limited economic value, but in some instances they are associated with positive wage returns, for instance for lower ability individuals who do not already possess a higher qualification.[120]

Successive governments have focused on raising skill levels as a means of

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[115] What Works Centre for Local Economic Growth (2014) *Evidence Review: Employment Training*; Garrett, R., Campbell, M. and Mason, G. (2010) *The Value of Skills: An Evidence Review*, UKCES

[116] For analysis of annual change in pay see Wilson, T., Gardiner, L. and Krasnowski, K. (2013) *Work in Progress: Low pay and progression in London and the UK*, CESI

[117] Cheung, S. and McKay, S. (2010) *Training and progression in the labour market*, Department for Work and Pensions Research Report No 680, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214451/rrep680.pdf

[118] *Ibid*

[119] McIntosh, S. and Garrett, R. (2009) *The economic value of intermediate vocational education and qualifications*, UKCES Evidence Report 11

[120] See De Coulon, A. and Vignoles, A. (2008) *An Analysis of the Benefit of NVQ2 Qualifications Acquired at Age 26-34*'. Centre for the Economics of Education Discussion Paper 106

improving the position of people with poor labour market prospects. However while promoting sustainable employment and progression has been a stated policy objective for a number of years,[121] activity in terms of skills funding and interventions has tended to focus on improving employability amongst the unemployed.[122] As such, the commitment of resource to improving skills among low-paid workers has been limited and inconsistent.

In 2003, the DWP launched a pilot scheme, the Employment Retention and Advancement (ERA) Demonstration, to test the extent to which offering in-work support, including financial support to take up training, could facilitate earnings progression. The scheme targeted lone parents and the long-term unemployed and offered participants access to a personal adviser, alongside financial incentives to complete training and work full-time. The evaluation concluded that while the initiative increased training for lone parents with lower qualifications, this did not result in increased earnings for this group. It was suggested that this may have been because the training taken up was insufficiently linked to available and realistic progression routes within local labour markets.[123] The importance of there being clear links between upskilling strategies and progression pathways has also been highlighted in evaluations of similar programmes in the US.[124]

Since then much of the pre- and post-employment support that is made available to labour market (re-)entrants has been contracted out to private and third sector providers through the Work Programme, the commissioning for which offered no explicit incentives for providers to promote earnings progression among their clients. A recent survey of welfare to work providers confirmed that while most providers offered some form of in-work support, this tended to be light touch, and there was almost no focus on upskilling people in low-wage work[125]. While the introduction of

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[121] See DWP and DIUS (2007) *Opportunity, Employment and Progression: making skills work*

[122] Paull, G. and Patel, T. (2012) An international review of skills, jobs and poverty: implications for the UK, JRF

[123] Hendra, R., Ray, K., Vegeris, S., Hevenstone, D. and Hudson, M. (2011) *Employment Retention and Advancement (ERA) demonstration: delivery, take-up, and outcomes of in-work training support for lone parents*, DWP research report 727; Hendra, R., Riccio, J., Dorsett, R., Greenberg, D., Knight, G., Phillips, J., Robins, P., Vegeris, S. and Walter, J. with Hill, A., Ray, K. and Smith, J. (2011) *Breaking the low-pay, no-pay cycle: Final evidence from the UK Employment Retention and Advancement (ERA) demonstration*. DWP Research Report No 765, London: CDS

[124] Hamilton, G. and Scrivener, S. (2012) *Increasing Employment Stability and Earnings for Low-Wage Workers: Lessons from the Employment Retention and Advancement (ERA) Project*. OPRE Report 2012-19, Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services; Miller, C., van Dok, M., Tessler, B. and Pennington, A. (2012) *Strategies to help low-wage workers advance: Implementation and final impacts of the Work Advancement and Support Center (WASC) Demonstration* New York: MDRC

[125] Wilson, T., Gardiner, L. and Krasnowski, K. (2013) *Work in progress: Low pay and progression in London and the UK* London: Inclusion and Trust for London

Universal Credit should bring more focus on supporting those on low wages to progress, it is as yet unclear how much resource will be made available to support people subject to in-work conditionality.[126]

In the context of government spending cuts, adult skills funding has also become increasingly targeted in recent years, with the result that the government is now offering income-contingent loans for adults who wish to take up intermediate and higher-level vocational training, rather than directly subsidising training.[127] There is a need to monitor whether this system works for people on a low wage; an initial survey of attitudes to loans in Further Education, for example, suggested that some groups of potential learners, such as older people, were less likely to consider taking out a loan.[128]

Raising employer demand for skills is also an emerging focus in government skills policy. The previous Labour Government launched the Train to Gain initiative in 2006, targeted at low-skilled workers, offering full public funding for eligible employees to take specified courses and qualifications, and providing a skills brokerage service for employers. This initiative was associated with some positive results, with one quarter of employees reporting that they had received either a pay increase or a promotion as a result of gaining a qualification. However, it was found to have had little impact on employers' decisions to train their staff, instead often funding low-level training that employers would have provided anyway.[129] This led the National Audit Office to conclude that it was not delivering good value for money, and the service was discontinued in 2010.[130]

Recent changes to the skills system have sought to address some of these challenges. Employers are being asked to play a greater role in designing, commissioning and delivering workforce qualifications through initiatives such as the

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[126] The DWP has been trialling different approaches to post-employment support but is yet to set out plans to support progression amongst those people on Universal Credit who are in work but who fall below the earnings threshold and who are deemed to be able to do more work.

[127] Advanced Learning Loans are available to people aged 24 and over studying at level 3 and 4. The government is currently consulting on whether these loans should be extended to 19-23 year olds. Funding is still available for some workers who lack basic skills to undertake training. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321921/bis-14-861-future-development-of-loans-in-further-education-consultation-v2.pdf

[128] BIS (2012) *Attitudes to Further Education loans*, BIS research paper number 73, TNS-BMRB for BIS, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32282/12-795-attitudes-to-further-education-loans.pdf (accessed 10/07/14)

[129] Lawton, K. and Lanning, T. (2012) *No Train, No Gain: beyond free market and state-led skills policy*, IPPR

[130] Learning and Skills Council (2010) *Train to Gain Employer Evaluation: Sweep 5*, Research Report; NAO (2009) *Train to Gain: Developing the skills of the workforce*, BIS LSC, http://www.nao.org.uk/wp-content/uploads/2009/07/0809879.pdf (accessed 08/04/14)

Employer Ownership of Skills pilots. Recent policy has also emphasised the importance of apprenticeships as a route into skilled work, alongside wider efforts to ensure that vocational education qualifications are of sufficient quality.[131] Apprenticeships offer people the chance to undertake on- and off-the-job training in a particular trade or skill. As such, they are intrinsically associated with progression: the rationale being that apprentices are paid lower wages and receive training on the assumption that the training they receive will lead to a higher-paid role. However, wage increases are not guaranteed. A survey of apprentices in 2012 found that of those people who worked for their employer prior to starting an apprenticeship, the majority (82 per cent) reported that their pay stayed the same after they completed the apprenticeship.[132]

Employers have an important role to play in training workers so that they can progress in work. For example, obtaining a vocational qualification through an employer is more valuable in labour market outcomes than studying off-site.[133] In addition, employer co-design and the inclusion of activities that closely mirror actual jobs in training material appear to be important in determining the labour market value of training.[134] However, access to workplace training varies with qualification levels, meaning that people with low skills are less likely to receive training from their employer. Moreover, many low-wage employers perceive a limited need for additional skills and have little incentive to invest in their workforce, thus limiting the potential for employees to access training and progress within these sectors. Box 4.1 summarises the current challenges in an approach to raising skills that focuses on employer provision of training.

It is important to ensure that the skills system functions to enable low-wage workers to progress in work. The emphasis on employer engagement in the skills system is to be welcomed, but initiatives have generally not been targeted at low-wage employment sectors. Furthermore, in some cases low-wage workers will be looking to undertake training so that they can switch jobs or occupations, in which case employers may have little incentive to offer training to help them.

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[131] Stasz, C. (2011) *The Purposes and Validity of Vocational Qualifications*, SKOPE Research Paper No. 105
[132] BIS (2013) *Apprenticeship Pay Survey 2012: Research findings*, https://www.gov.uk/government/publications/apprenticeship-pay-survey-2012 (accessed 13/06/14)
[133] McIntosh, S. and Garrett, R. (2009) *The economic value of intermediate vocational education and qualifications*, UKCES Evidence Report 11
[134] What Works Centre for Local Economic Growth (2014) *Evidence Review: Employment Training*.

Box 4.1: Raising skills through the workplace: Opportunities and challenges

Those with low skills are disadvantaged in terms of employer-provided training

Workers have unequal access to employer-related training. Those workers with less education to start with are less likely to receive work-related training.[135] Instead, employers may focus training on workers with higher levels of human capital because they expect to see higher returns to such training.[136] As such, patterns of training provision and participation tend to exacerbate the skills gap.

Variable employer investment in training

The amount of time and money that employers invest in training will depend on the balance they maintain between training and recruitment processes, i.e. between training and promoting employees internally or by selecting skilled workers externally. Recruitment and selection processes vary across jobs, but studies suggest that the recruitment process for low-skilled work tends to be cheap, quick and informal, with a focus on personal characteristics and attitudes to work.[137] Where a business depends on people doing unattractive jobs for low pay, where there is a continuous supply of staff with relevant competencies and where employers do not have to bear training costs, employers may be more willing to accept high levels of staff turnover.[138]

The importance of training outside the workplace

Employers are more likely to see the value of firm- and job-specific training, and be willing to invest in this, whereas more generic skills training that has to be supplied off-the-job may be less attractive in so far as it does not aid the immediate function that the worker fulfils. Vocational training needs to include the acquisition of wider transferable skills, however, which are portable between sectors, in order to protect workers from future labour market change. As skills policy in the UK begins to shift toward employer-led qualifications in delivery and design, it is important to ensure that the wider needs of the learner are also being met.

The evidence therefore suggests that raising skill levels can only form part of the answer to progression for low-wage workers. Quite apart from the challenge of generating greater employer demand for skills within low-wage sectors, flat organisational hierarchies in many sectors also mean that progression routes will

[135] Keep, E., Mayhew, K. and Corney, M. (2002) *Review of the Evidence on the Rate of Return to Employers of Investment in Training and Employer Training Measures*, SKOPE Research Paper No 34, University of Warwick.
[136] Blundell, R., Dearden, L. and Sianesi, B. (1999) 'Human Capital Investment: The Returns from Education and Training to the Individual, the Firm and the Economy' *Fiscal Studies* 20 (1) 1-24
[137] Atkinson, J. and Williams, M. (2003) *Employer Perspectives on the Recruitment, Retention and Advancement of Low-pay, Low-status Employees*, Strategy Unit Occasional Paper Series 2, Cabinet Office
[138] Devins, D. and Hogarth. T. (2005) ''Employing the Unemployed: Some Case Study Evidence on the Role and Practice of Employers.'' *Urban Studies* 42: 245256.

remain limited. This means that supporting individuals to move between jobs, to positions with better pay or career prospects, or efforts to better design progression routes into low-wage sectors will also need to form a core part of any strategy to help low-wage workers progress.

Facilitating job change

Facilitating movement between employers is an important means of enabling progression amongst low-wage workers. This is because certain sectors are associated with limited progression prospects. In 2012, some 32 per cent of low-paid employees in elementary occupations had only ever held a low-paid job in the last decade.[139] As a result, the most effective means of progressing for some people may be for them to change jobs.

Evidence suggests that moving jobs can be important in progressing earnings. In a study of US welfare recipients, roughly three quarters of those people who managed to fully transition out of low earnings did so by changing employers.[140] However, Whilst low-wage work can serve as a stepping stone to better-paid work in the right circumstances, not all job mobility is productive. Significant labour market churn may actually undermine progression chances. A study of wage progression among low-wage workers in the UK found that switching jobs had ambiguous effects – in general job mobility had a negative impact on wage progression, however moving out of a low-paying occupation or sector into one with better pay had positive effects.[141]

Whilst job changes will occur independent of government intervention, information, advice and guidance (IAG) services can support the right kind of job transitions to facilitate progression.[142] Findings from several in-work support programmes in the US showed that positive earnings impacts were driven by clients changing jobs, supporting the broader evidence on job mobility being an effective strategy for wage progression within low-wage labour markets. These findings also highlight the importance of the quality of any mentoring or guidance offered. One successful programme, operated by a private sector provider with strong links to employers, helped individuals move to jobs with employers that paid more than their current jobs. Staff identified appropriate job openings and helped clients with job

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[139] Hurrell, A. (2013) *Starting out or getting stuck? An analysis of who gets trapped in low-paid work – and who escapes*, Resolution Foundation.
[140] Holzer, H. (2004) *Encouraging Job Advancement Among Low-Wage Workers: A New Approach*, Brookings Institution
[141] Hurrell, A. (2013) *Starting out or getting stuck? An analysis of who gets trapped in low-paid work – and who escapes*, Resolution Foundation.
[142] Although the exact magnitude of impact is difficult to quantify. OECD (2004) *Career guidance and public policy: Bridging the gap* OECD, Paris ; Killeen, J. and White, M. (2003) *Outcomes from career information and guidance services*, OECD, Paris; Pollard, E. Tyers, C. Tuohy S. and Cowling, M. (2007) *Assessing the net added value of adult advice and guidance* Department for Education Research Report RR825A

applications based on their knowledge of employers' requirements and job characteristics.[143]

In the UK, the Work Programme payment structure currently incentivises providers to ensure that people stay in work, which can include a succession of job spells, thus providing an incentive for advisers to encourage rapid job re-entry if a client leaves work. However there are limited incentives for providers to ensure that clients are moving to higher-paid or better quality jobs, given that they have no outcome targets for earnings (aside from the fact that higher paid/ better quality work is more likely to be stable too).

In addition to promoting mobility to better employers, IAG services can also play a key role in encouraging progression aspirations among individuals in low-wage work. Previous research shows that low confidence can act as a key barrier to individual progression and that many people in low-paid work do not view their job as a foundation for sustained progression.[144] In this context, careers advice and counselling services may play a role in building confidence, helping workers to set their experience in context and identify any barriers to progression. Recent research has highlighted the importance of career adaptability in smoothing employment transitions, that is, the ability to cope with both work responsibilities and the unpredictable adjustments that changes in work and working conditions may necessitate.[145] This kind of support is currently made available to workers who have been made redundant, with advice sessions and training subsidies made available in some cases to support people to re-skill. Participants in the ReAct programme, delivered in Wales, for example, suggested that the careers advice they received made them feel more confident in their own skills and ability.[146]

However, access to careers guidance services is not guaranteed for those in low-wage work. Whilst adults may access some guidance sessions through the National Careers Service, awareness of this service is limited and eligibility for more

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[143] Hamilton, G. and Scrivener, S. (2012) *Increasing Employment Stability and Earnings for Low-Wage Workers: Lessons from the Employment Retention and Advancement (ERA) Project*. OPRE Report 2012-19, Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services;

[144] Hoggart, L., Campbell-Barr, V., Ray, K. and Vegeris, S. (2006) *Staying in work and moving up: Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*, Department for Work and Pensions Research Report No 381 Corporate Document Services; Devins, D., Bickerstaffe, T., Nunn, A., Mitchell, B., McQuaid, R., Egdell, V. and Lindsay, C. (2011) *The Role of Skills from Worklessness to Sustainable Employment with Progression*

[145] Bimrose, J. and Hearne, L.(2012) 'Resilience and career adaptability: Qualitative studies of adult career counselling', *Journal of Vocational Behavior* 81: 338–344.; Bimrose, J., Brown, A., Barnes, S and Hughes, D. (2011) *The role of career adaptability in skills supply*, UKCES

[146] Old Bell 3 Ltd, Dateb and IFF Research Ltd (2011) *Interim evaluation of ReAct*, 14/2011, Welsh Government, http://wales.gov.uk/docs/caecd/research/111117ReActFinalreporten.pdf (accessed 11/10/14)

extended forms of support – up to three face to face guidance sessions – is targeted on those with low qualifications, and those people who are facing redundancy, amongst other barriers.[147] A flexible service offering access to support via the web, telephone and face-to-face is likely to be important in providing support to people in work, while personalised support is also thought to be particularly important.[148]

Designing in progression routes

The limited opportunities for individuals to progress within low-wage work in the UK is partly attributable to the way that work is organised in certain sectors and firms; e.g. the use of external contractors and agency workers, the flattening of hierarchies, and the relative decline of internal labour markets, all of which limit the extent to which low-wage work can serve as a 'stepping stone' to higher pay.[149] However, there is some scope for this to change. This section considers a range of 'career ladder' initiatives that have been introduced to facilitate better progression pathways in a range of contexts.

Career ladder schemes map out a sequence of jobs within a firm or a sector with progressively higher pay and responsibilities – a 'career ladder'; identify the skills and abilities needed at each stage of the ladder; and then identify or design linked training and education courses to equip workers for those jobs. The process may involve simply making more transparent an existing career ladder within a firm/industry or may encompass the creation of additional rungs on the ladder (i.e. new intermediate positions) to facilitate incremental progression.[150] Career ladder schemes may be linked to a single employer (as in the NHS), or may operate within a sector or, less commonly, in a particular geographical area.[151] In the US, career ladder initiatives are usually delivered through a partnership between voluntary and

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[147] National Careers Council (2013) *An Aspirational Nation: creating a culture change in careers provision*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205147/bis-13-919-national-careers-council-report-an-aspirational-nation-creating-a-culture-change-in-careers-provison.pdf (accessed 08/04/2014); BIS (2012) *National Careers Service: the right advice at the right time, New challenges, new chances: further education and skills system reform plan*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32344/12-677-national-careers-service-right-advice-right-time.pdf (accessed 11/07/2014)

[148] Hakeney, S., Neale, I., Casey, P. and Neat, S. (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01. For an outline of what a successful support package might look like see: UKCES (2011) *Helping individuals succeed: Transforming career guidance*.

[149] Keep, E. and James, S. (2012) 'A Bermuda triangle of policy? 'Bad jobs', skills policy and incentives to learn at the bottom end of the labour market', *Journal of Education Policy*, 27:2, 211-230

[150] Ray, K., Sissons, P., Jones, K. and Vegeris, S. (2014) *Employment, pay and poverty: Evidence and policy review* London: The Work Foundation

[151] Sissons, P. and Jones, K. (2014) *How can local skills strategies help low earners?* JRF

community sector organisations, training providers, workforce development experts and employers, who design appropriate training pathways, linked to career transitions and aligned with labour market demand. They may also include the provision of various support services, such as job placement assistance and help with childcare and transport.[152]

For career ladder or sector training approaches to work, employers need to be engaged in both the development and implementation of the "ladder" framework.[153] In addition, the success of these schemes is very much dependent on the industry concerned. This is due to differences between the internal labour markets in firms in different sectors. Importantly, a distinction should be made between firms with a comparatively higher proportion of low-wage to better-wage jobs, and those where the internal structure is less bottom-heavy. Career ladder schemes are likely to be less effective where there are fewer intermediate level jobs for low-wage workers to move into, for example in service sectors, and better in manufacturing, parts of the public sector (for example health), and in banking[154]. In addition, large firms tend to be more effective sites for the policy, since small businesses with few employees may struggle to implement a ladder in light of the limited number of progression opportunities, suggesting a need to support small employers to link up progression routes.[155]

Some of these issues can be addressed – in theory – through developing career ladders at the sectoral or local area level, rather than at individual firm level, and by taking a more proactive approach to creating additional intermediate positions. However there is very little evidence available on the practical implementation, let alone the progression outcomes, of career ladder initiatives in the UK.

The single example of a career ladder programme being introduced on a large-scale in the UK is the Skills Escalator in the NHS, introduced in 2001 as part of a range of HR policies implemented by the government to reform and expand the NHS workforce. The Skills Escalator encouraged NHS employers to develop schemes to promote worker progression, by making explicit the means of career progression between different levels in the organisation and providing some funds for training.[156]

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[152] Holzer, H. (2007) *Better workers for better jobs: improving worker advancement in the low-wage labor market* The Brookings Institution, discussion paper 2007-15
[153] Hakeney, S., Neale, I., Casey, P. and Neat, S. (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01
[154] Mitnik, P. and Zeidenberg, M. (2007) *From Bad To Good Jobs? An Analysis of the Prospects for Career Ladders in the Service Industries* Center on Wisconsin Strategy, January 2007, http://www.cows.org/_data/documents/1184.pdf
[155] Hakeney, S., Neale, I., Casey, P. and Neat, S. (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01
[156] McBride, A., Cox, A., Mustchin, S., Carroll, M., Hyde, P., Antonacopoulou, E., Walshe, K. and Woolnough, H. (2006) *Developing Skills in the NHS*, A study commissioned by the Department of Health Policy Research Programme

It was left to individual NHS employers (e.g. hospitals and primary care trusts) to decide whether to take part in the scheme and how to implement it. This resulted in variable practice, which differed according to the commitment and capacity of individual NHS organisations. Key findings from the evaluation were that the scheme was more effective for the parts of the ladder where there was some commitment of training resource from government; that contracting out of low-level staff to private sector organisations presented additional challenges to the progression of these workers; and that the support and capacity of line managers was crucial in facilitating effective implementation of the scheme on the ground.[157]

A career ladders pilot scheme was also planned by the London Development Agency (LDA) in 2011, to trial ways of supporting worker progression within the retail and hospitality sectors[158]. However the LDA was abolished before the pilot was commissioned and the scheme was not subsequently taken forward. More recently, some career ladder initiatives have been planned by employment and skills providers as part of the ESF Local Response Fund, but as yet no evidence is available on their implementation.

Given the potential – but current lack of evidence - regarding the effectiveness of career ladder initiatives to support low-wage workers' progression, we think it appropriate that pilot funding is made available for local stakeholders to bid for in order to work together with sector skills bodies to develop career ladder initiatives that benefit low-skilled/ low-paid staff. A requirement for robust evaluation should be a key feature of this funding.

To illustrate what career ladder initiatives look like in practice, Box 4.2 outlines a number of examples from the US, where career ladder schemes have received more policy attention, and also briefly outlines the components of the NHS Skills Escalator in the UK.

Box 4.2: Career ladder initiatives (US and UK)[159]

The Extended Care Career Ladder Initiative (ECCLI), Massachusetts

This initiative was formulated to simultaneously improve the quality of care in nursing homes and to improve the retention of Certified Nursing Assistants (CNAs). Grants were provided

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[157] *ibid*
[158] Barron. P. (2011) "LDA Careers Ladders Programme, Moving On and Moving Up: A model for tackling poor retention and progression in the London labour market", paper presented to ESRC seminar series *Making bad jobs better*, Seminar 3: How can exit routes from bad jobs be created? University of Cardiff, 2nd March 2011
[159] Adapted from Hakeney, S., Neale, I., Casey, P. and Neat, S. (2009) *Staying in, moving up: Employment retention and progression in London*, LDA Labour Market Research Series 01, and Sissons, P. and Jones, K. (2014) *How can local skills strategies help low earners?* JRF

to consortia including nursing homes and community colleges to fund training and career ladders that focused on lower-level jobs, for example, food service and patient care assistants, through to CNAs. The project also extended further up the pay scale, with grants supporting CNAs to progress into licensed practice nurse roles. The initiative was used to train more than 5,500 nursing home staff.

The model was found to improve retention rates in 21 out of 28 participating organisations. The majority of beneficiaries of the programmes were women working in low-wage jobs, and the programme saw wage increases for the majority of trained workers. However these wage increases were very small at some sites and many of the participating workers felt that the pay rises were not particularly significant.

Jobs with a Future Partnership

Based in Wisconsin, this scheme created a training programme in phlebotomy that provided a career progression pathway for low-paid workers in the health care sector. The programme offered a six-week training course that enabled CNAs to move up into entry-level phlebotomist positions. Employer engagement in the programme was partially driven by the challenges they faced around a shortage of phlebotomists and the duration of time it took to train them up. It therefore benefited both workers and employers. The Partnership also developed programmes working with manufacturing employers, engaging large numbers of employers and enabling them to collaborate. It also built relationships between employers, job centres and technical colleges.

Tri-County Job Ladder Partnership

A collective of employers and community colleges created career and educational pathways across four sectors: manufacturing, customer relations, information technology and health services. The project involved employees drawing on a database of job and training opportunities from across those organisations involved in the partnership to develop their own individualised career plans. This example does not rely on developing internal career ladders but provides specialised training in the skills required by specific sectors, and then matches workers to those jobs.

The NHS Skills Escalator

The NHS Skills Escalator was introduced in 2001 with the aim of supporting progression in the organisation by clearly setting out what it would take to progress between different roles in the organisation.[160] In order to clarify career progression options, the model divides staff into seven categories: (1) the socially excluded; (2) unemployed; (3) roles requiring fewer skills and less experience; (4) skilled roles; (5) qualified professional roles; (6) more advanced skills and roles and (7) more senior roles at the level of 'consultant'. The vision was that the escalator would support progression up through the ranks to the level of a consultant.

These ideals were difficult to realise in practice. The initiative was aimed at the NHS as a

[160] A. McBride and S. Mustchin (2013) 'Creating sustainable employment opportunities for the unemployed', *Policy Studies*, 34:3, 342-359,

whole, but participation and implementation was at the discretion of individual NHS employers, who had variable levels of commitment to the idea. The evaluation found that access to career development for lower skilled staff was dependent on management strategies for responding to skills needs in the organisation and in some cases, progression routes were undermined by outsourcing arrangements.[161]

[161] McBride, A., Cox, A., Mustchin, S., Carroll, M., Hyde, P., Antonacopoulou, E., Walshe, K. and Woolnough, H. (2006) *Developing Skills in the NHS*, A study commissioned by the Department of Health Policy Research Programme; for a review see Ray, K., Sissons, P., Jones, K. and Vegeris, S. (2014) *Employment, pay and poverty: Evidence and policy review* London: The Work Foundation

Chapter 5 Conclusions and policy options

This report has examined the strengths and weaknesses of a range of policy levers that can be used to improve low-wage work, whether directly in terms of higher wages and through the design of low-wage work, or by facilitating progression out of low pay for individuals. In this final chapter, we develop the key elements of a policy agenda for tackling persistent low pay in the UK. Over the years, many analysts have offered their prescriptions for tackling this issue; we do not pretend to be the first or seek to reinvent the wheel. Rather, we outline a set of policies that would help to shape the framework for the UK's first strategy for tackling low pay. Building on the policy areas discussed in the preceding chapters, the proposals that follow draw on an extensive evidence base in some areas, but in others they are necessarily more intuitive.

In essence, this paper makes the case for a low pay strategy that goes beyond standard policy levers such as the National Minimum Wage and the Living Wage, important as they are. Wages that do not meet the basic costs of living go to the heart of the issue of low pay; as such, the logic for focusing on wages is clear. With expenditure on tax credits also increasing, there is concern that the government is simply subsidising low pay, which is unsustainable in the longer term. Ultimately, the issue of low pay cannot be addressed unless more employers pay decent wages. Both the Social Mobility and Child Poverty Commission and the Living Wage Commission have recently published reports calling for employers to step up their efforts in tackling low wages and in-work poverty[162]. However while the issue now has a political spotlight, a strategic framework for tackling low pay in the UK is still lacking – one that brings a range of relevant initiatives and policy interventions together.

As the Low Pay Commission makes clear in their 2014 report, at the heart of the low pay challenge is low productivity. Tackling the productivity challenge across low pay industries and low pay occupations means moving beyond the conventional policy focus on wage floors, welfare reform and skills investment. We also need to create the right institutional framework and incentives for businesses to move away from low-value, low-investment business models. This requires the identification of appropriate levers through industrial and innovation policies targeted on low pay industries and changes in work organisation, practices, and progression within the

[162] Social Mobility and Child Poverty Commission (2013) *State of the Nation 2013: Social mobility and child poverty in Great Britain*, Living Wage Commission (2014) *Work that pays: The final report of the Living Wage Commission*

workplace.

Tackling low pay may also involve trade-offs and some of these may feel uncomfortable. The Low Pay Commission has made it clear that it would not support a boost in the NMW that increased productivity but cost jobs. It is certainly true that at the whole economy level, more jobs and higher productivity are compatible, and it should also be possible to raise productivity across the low-wage industries as a whole while retaining existing employment levels. The low pay industries will continue to provide many new jobs, especially for young people and other new entrants, for the foreseeable future. This cannot, however, mean preserving every area of low-wage employment. Over time, we need to facilitate a shift in employment from lower to higher productivity activities both within and between sectors. In some low productivity sub-sectors and for some low productivity activities that may mean fewer jobs rather than more.

We propose that the Government sets out a strategic framework for a low pay strategy for the UK which explicitly aims to reduce the share of low-wage jobs in the British economy. The evidence presented in this paper suggests that the priority areas for action to achieve this are threefold:

- Raising wage floors,
- Enabling progression, and
- Facilitating higher wage business models

Raising wage floors

While the introduction of the NMW proved an effective tool for tackling very low pay, with no adverse effects on employment rates, there is also a general consensus that it has failed to have any knock-on impact on the proportion of the workforce in low pay. There has been much debate over the possibility of extending a 'wage floor' strategy, with the expansion of the Living Wage and further upratings of the NMW becoming the focal points. Below, we set out our recommendations in this area.

1. Becoming more ambitious about the remit of the Low Pay Commission

Fears over possible detrimental impacts on employment with the introduction of the NMW led to a fairly narrow role for the Low Pay Commission, who must recommend the level of the NMW based solely on what they believe the economy will bear. The LPC's title is therefore somewhat misleading; the Commission has few responsibilities around the wider issue of low pay, which the NMW in its current form fails to touch. As we have previously argued[163], we propose that the LPC be given

[163] Coats, D. (2007) *The National Minimum Wage: Retrospect and Prospect* London: The Work Foundation

a much wider remit and adequate resources to take proactive measures towards a wider reduction of low pay, providing analysis, and where appropriate offering advice on the causes, consequences and potential solutions, to the wider challenge of low pay in the UK. As part of this, the LPC should return to the "escalator" and seek to increase the NMW at a faster rate than average earnings over the next few years, given the current strong economic recovery. However, we are not persuaded that it would be helpful for the government to set a specific target for the level of the NMW because this would risk the political neutrality of the LPC and likely fracture its widespread support. However, the Government should provide more direction to the Commission's work by articulating an aspiration to reduce the share of low-paid jobs in the UK over time to a level nearer to the OECD average (currently 17 per cent).

2. Government promotion of the Living Wage

Fears about the potential detrimental effects on employment rates is likely to deter any additional regulation around the Living Wage. Increasing its uptake will therefore depend on voluntarism for the foreseeable future. With all political parties now claiming to be serious about tackling low pay, government and the public sector must take a clear lead in this. Government departments and local authorities should aim to be living wage employers. The public sector should be supported, encouraged and potentially incentivised to adopt policies for social / community benefit as part of their procurement policies[164], in order to disseminate wider payment of the Living Wage throughout their supply chains.

3. Increasing transparency around payment of the Living Wage

One of the ongoing challenges in improving the uptake of the Living Wage is that currently many employers do not see a clear business case, particularly where a voluntary system means that any employer attempting to improve wage rates runs the risk of being undercut by competitors. One way of tackling this problem is through improving transparency around the Living Wage, thus allowing campaigners a better means of targeting their efforts and improving awareness amongst the wider public as a mechanism for incentivising businesses to act. We therefore recommend that all publicly-listed companies be required to make available information on the proportion of their staff paid below the Living Wage. This would encourage businesses to be clearer in justifying their decisions around pay, and would allow those businesses following good practice to better publicise this as part of their business case.

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[164] MacFarlane, R. with Anthony Collins Solicitors LLP (2014) *Tackling poverty through public procurement* York: Joseph Rowntree Foundation

Enabling progression

Low-wage workers should have the opportunity to progress into better-paid roles that reflect their skills and experience, but in some sectors there is considerable persistence to low pay. Here we focus on two measures to increase progression opportunities for low-wage workers: improving access to training for low-wage workers and facilitating the development of further career ladder initiatives.

4. Access to training and advice for people in low-wage work

Whilst low-wage workers who receive training do not always progress in work, higher skills are clearly linked to better outcomes in the labour market. With low-wage workers less likely to receive training, the Government has a role to play in supporting access to training and careers advice for this group to facilitate progression. Extending eligibility for skills funding to people who move into low-wage work seems sensible,[165] but evidence from previous skills funding schemes suggests a number of design challenges[166]; for example, should funding be directed at employers, providers, or individuals? and which courses should be eligible for skills funding? Recent government initiatives have sought to give employers a much greater role in designing and administering funding and this is to be welcomed. In some cases, however, low-wage workers will be looking to undertake training so that they can change their employment. In such cases, employers may have little incentive to support workers to access training.

In light of these challenges, there is a clear rationale for introducing an independent intermediary, such as a careers adviser, who might advise workers on their progression prospects and the kinds of training that might be beneficial to them. As such we propose that the government extend access to training subsidies to people in low-wage work and look at the role that the National Careers Service could play in administering this fund. Advisers would help to assess the appropriateness of training and whether it would significantly improve a worker's progression prospects. Employers should be included in the consultation process where appropriate to understand the value to them of a given training course and offer insight into prospects for progression.

In all, this would significantly extend the current remit of the National Careers Service. It would require an expansion of the Adult Skills budget, where funding is forecast to fall for the next few years, as well as requiring further resources to raise

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[165] A recent report suggested that this should apply to full funding for level 2 training, see Wilson, T., Gardiner, L. and Krasnowski, K. (2013) *Work in Progress: Low pay and progression in London and the UK* London: Centre for Economic and Social Inclusion

[166] Consider the case of Individual Learning Accounts, see National Audit Office (2002) *Individual Learning Accounts*, Report by the Comptroller and Auditor General HC 1235 Session 2001-2002: 25 October 2002

awareness of the availability of careers advice services amongst low-wage workers. For this intermediary role to work, the National Careers Service would also need to work in collaboration with industry bodies such as Sector Skills Councils to develop sector specialisms, so as to ensure that high quality careers advice, linked to specialist knowledge of progression pathways within particular sectors, was available for learners.

5. Pilot funding to develop career ladder schemes

Career ladders can offer workers a route into higher-skilled job roles, whether in the same organisation, across a sector, or possibly in a local area. In England, Local Enterprise Partnerships (LEPs) have been tasked with promoting economic development and are set to play a strategic role in skills funding and provision over the coming years. So far these partnerships have tended to focus on achieving economic growth rather than on social outcomes or the issues facing low-wage workers,[167] but there is scope for them to either work with or commission employment and skills providers to do more to support progression from low-wage work. In some instances, LEPs are already being encouraged to work with local skills providers to ensure that the supply of skills relates to local demand.[168] Building on the Employer Ownership of Skills Pilots we propose that pilot funding be made available specifically so that local stakeholders can work together with sector skills bodies to develop career ladder initiatives that benefit low-skilled staff.

Higher wage business models

Finally, a low wage strategy for the UK needs to move beyond policies directly targeting low wages and progression routes, to also address the 'black box' of employer practices. In particular, it needs to adopt a range of approaches to challenge the low-skill, low-value business models that predominate in the low-wage sectors. There is less research and policy analysis of what would work best in this area, so the ideas here are only a starting point. We think that there is a need for more research into which policy levers would work best in this ambitious agenda.

6. Develop sector strategies for tackling low pay

There needs to be a coordinated industrial strategy covering the key low pay sectors, developed with partners and stakeholders in the sector, building on the welcome extension of the Strategic Partnership for the retail industry[169], as part of

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[167] Sissons, P. and Jones, K. (2014) *How can local skills strategies help low earners?* JRF
[168] HM Government (2013) *Growth Deals: Initial Guidance for Local Enterprise Partnerships*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224776/13-1056-growth-deals-initial-guidance-for-local-enterprise-partnerships.pdf (accessed 04/07/14)
[169] BIS (2013) *A Strategy for Future Retail* and BIS (2014) *Industrial Strategy Progress Report.*

the Government's evolving industrial and innovation strategies. This should include a clear focus on transferring best practice and lessons on tackling low productivity and improving progression across the low pay sectors.

7. **Business support services to stimulate employer demand for and use of skills**

At the local level, LEPs can play a bigger role in bringing together local strategies for skills with wider economic development priorities, and linking to other business support activities to seek to grow the number of 'good jobs' locally. This could include a focus on incremental innovation in sectors with large numbers of low-wage jobs as well as supporting peer-to-peer learning among businesses around employer demand for skills.[170] This focus – currently not on the agenda of some LEPs - could be stimulated through key targets in devolved budgets.

8. **Strengthen support for SMEs in moving towards higher wage business models**

As a significant part of the UK labour market, SMEs have a vital role to play in tackling low pay. Business support services that work with SMEs should seek to improve managerial capability and offer advice and guidance on job design and the adoption of human resource management practices, with a view to better managing and progressing low-paid staff. Reinforcing the focus of existing resources on improving SME managerial capability through schemes like the national Growth Accelerator or the LEAD programme delivered by Lancaster University[171], especially in low-wage sectors, may prove more cost-effective than across the board incentives and tax cuts.

9. **Promoting employment rights among contingent workers**

There is a strong case for ensuring that current flexibilities in employment contracts ensure a fair balance between employers and employees. This could include better awareness and enforcement of existing employment rights – particularly for those in insecure forms of employment such as temporary or agency workers and zero hours workers.

Zero hour contracts have been a major focus of the public debate and we welcome the Government's commitment to ban the use of exclusivity clauses in zero hours contracts, to develop clear guidelines on good practice, and to raise awareness of rights and how these might be affected by changes in contract and employment status. We recommend that these are taken forward on a sectoral basis, as the

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[170] See UKCES (2012) *Employer practice in progressing low-paid staff*
[171] Wren, C. and Jones, J. (2012), *Quantitative Evaluation of the LEAD Programme, 2004-11*, Newcastle University, Newcastle

challenges and solutions across sectors will vary significantly. We are also attracted to the ideas in the Pickavance report that employees working fairly consistent hours under a zero hours contract would have the right to request a move to a regular, minimum hours contract at six months and that this move would become automatic at twelve months, with an opt out clause allowing employees who prefer the flexibility of a zero hours arrangement to continue. This seems to strike a reasonable balance between allowing employees who like the flexibility of zero hours to continue with the arrangement, giving those who would prefer a regular contract more certainty about their hours, while at the same time preserving the ability of employers to operate flexibly.

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