GMB members at the 90th anniversary celebrations of Poland's independence, October 2008

RAISING THE KIDS:

STOP IN-WORK POVERTY CEC SPECIAL REPORT 2009

GMB ANNUAL CONGRESS BLACKPOOL SUNDAY 14 JUNE—WEDNESDAY 17 JUNE 2009

GMB is the third largest trade union in the UK, representing over 600,000 workers across all sectors of the economy.

CPAG is the leading charity campaigning for the abolition of child poverty in the UK and for a better deal for low-income families and children.

With this report, GMB and CPAG have joined forces to raise the issue of in-work poverty.

Published by CPAG
94 White Lion Street
London N1 9PF
Tel: 020 7837 7979
www.cpag.org.uk

A CIP record for this book is available from the British Library

ISBN 978 1 906076 38 2

Design by Devious Designs 0114 275 5634
Printed by Calverts Press 020 7739 1474

CPAG is grateful to GMB for its support in producing this report.

Preface

Those bearing the brunt of the economic recession are not the same people who brought it about in the first place. Rather, they are hard-pressed families, often on low pay and in insecure work. Everything that can be done to limit unemployment must be done, but there is another threat, which preceded the downturn and is likely to be compounded by it: that of low pay.

The recession has sharpened minds about just how unequal Britain is. A year working full time on the minimum wage gives a salary of £11,918 – loose change to those complaining about the proposed 50 per cent income tax rate on incomes 13 times this level at £150,000. These are not gaps; they have become chasms.

This report is published to highlight the continuing scourge of low pay, which undermines statements that work is the best route out of poverty. Low pay is a cause of poverty; it damages children and wastes talent. The wider inequality created by our unfair labour market damages our social fabric and means that everyone loses – rich and poor alike. Low pay is also associated with wider issues – of job quality, job security and of the ability to access skills and training that could help people progress. Child poverty is 'everybody's business' and this means that employers should pay decent wages.

Of course, business is now under serious pressure, but this has been caused by a falling demand for goods and services, not by the wage costs of the lowest paid. In previous recessions, average earnings kept increasing despite rising unemployment and so far, excluding bonuses, average earnings have again continued to grow. It would be wrong for those paid least to face the most restraint.

Paid work has been lauded as the route out of poverty, but for the more than one in two poor children with a working parent, that promise has been false. The recession has highlighted public unease about our unequal society and it is right that rates of pay of those on the lowest wages increase. Concern about fairness cannot only be for times of economic growth – the recession makes the task more urgent, not less.

Paul Kenny, General Secretary of the GMB and **Kate Green**, Chief Executive of the Child Poverty Action Group

Introduction

The roots of the current economic crisis lie in deregulated economic policies that prioritised GDP growth over income and wealth distribution. Policies of 'trickle-down economics' have left the UK a highly unequal country, and one in which low pay and in-work poverty is widespread. It is time for a change to narrow these inequalities.

The Government has put in place a raft of policies to reduce child poverty, most of which are based on the assumption that work is the only reliable route out of poverty. However, for many families, getting a job is by no means a secure way out of poverty. In fact, most poor children actually have a parent in work.[1] For these children, parental wages (plus other 'transfers' such as child benefit and tax credits) do not protect them from poverty. Indeed, in international terms, the UK maintains an uneasy balance of both a high employment rate and a high child poverty rate (we have the sixth highest employment rate in the European Union,[2] but stand joint twenty-first on child poverty[3]).

This report, written jointly by the Child Poverty Action Group and the GMB, demands a change of direction on employment policy: one that tackles in-work poverty and puts fairness first. Some welcome protections have been put in place in the past decade (tax credits and the national minimum wage), but too often the promise that 'work is a route out of poverty' has been false. Employment, in itself, does not provide a safe way out of poverty: pay, hours and family size are also important. This report argues that, while increasing pay rates is not the only solution to low-paid employment (parental hours and other transfers are also important), it makes a significant contribution to family incomes, and can help fulfil the promise of employment as a route out of poverty.

We make three central arguments:

- If employment is to form a more effective and sustainable route out of poverty, pay rates for those on lower incomes need to rise.
- Concerns about unemployment should not be used to hold down pay for the lowest paid.
- The public has had its fill of wide and deep inequalities, and the mood is shifting towards a fairer form of capitalism. Ensuring that employment is decently paid and pay inequalities are narrowed is central to this.

The recent Budget statement[4] illustrates just how unequal the UK has become. For the first time in a decade, proposals have been put in place that represent a significant shift in approach. They include: taxing the super-rich, with measures to taper the personal allowance (for those with incomes over £100,000); introducing a new 50 per cent income tax rate (on incomes above £150,000); and tapering private pension rate relief to the basic level (between £150,000 and £180,000).

Although the moves provoked howls of protest from some quarters (and support from many others), these objections simply illustrate how ignorant many people continue to be about how privileged those earning such large sums are. To put a little perspective on this:

- Half the working population earn less than £17,597 a year – one-eighth of the £150,000 threshold.[5]
- A 40-hour week on the national minimum wage produces a gross salary of £11,918, about one-thirteenth of the £150,000 threshold.
- The adult rate of jobseeker's allowance (paid at £64.30 per week) is worth £3,344 a year, one-forty-fifth of the £150,000 threshold.

It is quite simply morally wrong and socially unhealthy for a society to sustain such enormous gaps. Those on the lowest rates of pay, for instance in the public services, retail or hospitality sectors, are performing the tasks on which richer groups and the whole of society depend. Sub-prime jobs may reduce the cost of some goods and services (and benefit the well paid) but they cause individual and social costs through the damage wrought by poverty and inequality.[6] It is not in anyone's interests to allow inequalities to continue. The challenge now, and for whichever political party holds power after the next election, is to redress these inequalities by ensuring that in every policy area those at the bottom of the pile gain more than those at the top. Increasing the pay of low-paid workers can be done, and must be central to a politics of fairness.

At the time of writing, the Government has accepted recommendations on the minimum wage. From October 2009, the adult rate will increase from £5.73 to £5.80, and the youth development rate will increase from £4.77 to £4.83 for 18–21-year olds and from £3.53 to £3.57 for 16/17-year-olds.[7] It is welcome that the Government has resisted calls to freeze the rate, but current earnings inflation (excluding bonuses) is still around three times this level (see below) and will lead to stronger calls for the minimum wage to be increased in real terms beyond 2009.

Low-pay Britain

There is no single definition of low pay,[8] so this section looks at the distribution of wages and the extent of low pay as defined by the New Policy Institute as an hourly rate of less than £7. Other thresholds include the London Living Wage, which, in 2008, was set at £7.45 an hour,[9] the Joseph Rowntree Foundation's Minimum Income Standard, which estimates that an hourly wage of £6.88 for a single childless adult is needed to meet the Standard,[10] and the Scottish Living Wage campaign, which has argued for a £7 an hour minimum wage (adopted by Glasgow Council).[11]

Wage inequality is large

Half of all employees have gross incomes below £17,597 a year (£338.40 per week). This 'median' rises when part-time workers are excluded because they work fewer hours and receive a lower average hourly wage. Applying the figures from 2008 pay data to the number of UK employees (29.3 million[12]) suggests that, in 2008, **about three million employees earned below £6 an hour.**

Table 1

Distribution of gross earnings, 2008

	Full time		Part time		All employees	
	Per year	Per hour	Per year	Per hour	Per year	Per hour
10% earned less than	£13,614	£6.66	£2,496	£5.52	£6,094	£6.00
25% earned less than	£17,597	£8.50	£4,659	£6.02	£12,392	£7.48
50% earned less than	£24,887	£11.97	£7,644	£7.50	£17,597	£10.61
25% earned more than	£35,157	£17.56	£11,622	£10.97	£31,294	£16.30
10% earned more than	£49,234	£25.02	£18,320	£18.56	£44,346	£23.62

Note: figures are annualised from weekly data.

Source: National Statistics, *2008 Annual Survey of Hours and Earnings Analysis by all Employees*, available at www.statistics.gov.uk/StatBase/Product.asp?vlnk=15187

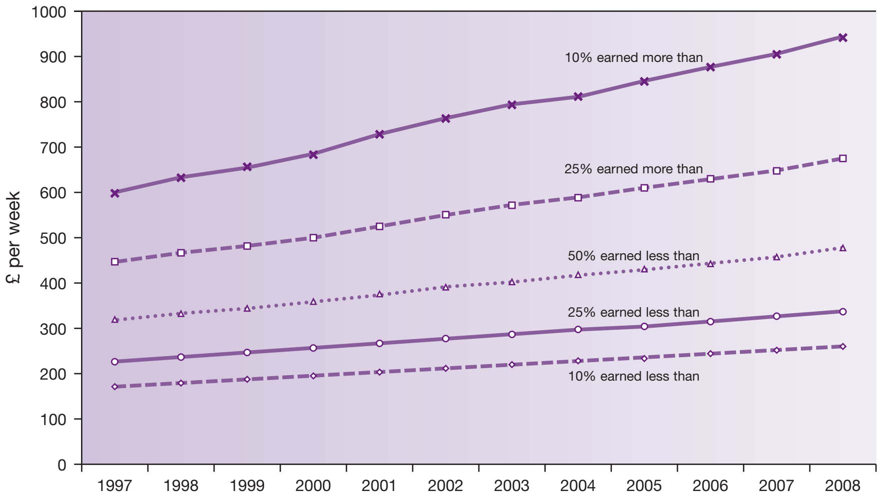
More fine-grain analysis also shows wider inequalities. Work from the Institute for Fiscal Studies shows that the incomes of the top 10 per cent were about twice the average; that the top 1 per cent had incomes six times the average; and the top 0.1 per cent had incomes 32 times the average.[13] Much of this difference was driven by earnings.

Wage inequality has grown

While over the past ten years earnings have risen for most workers, pay gaps have widened and the top 10 per cent of earners have gained more than other groups.

Figure 1

Pay distribution changes 1997–2008 (full-time employee gross wages)



Note: only full-time gross earnings are shown, but part-time workers show a similar pattern.

Source: National Statistics, *Tables Accompanying Patterns of Pay: ASHE results 1997–2008* available at www.statistics.gov.uk/StatBase/Product.asp?vlnk=14123

Low pay is patterned by industry, gender, disability and ethnicity

Low pay is extremely patterned, and reinforces other inequalities. The New Policy Institute mapped workers earning hourly wages below £7 and found the following.[14]

- **The risk of low pay varies by industry.** Seventy per cent of employees in the hotel and restaurant sectors are paid below £7 an hour, as are 52 per cent of retail and wholesale workers and 20 per cent of public service workers, but just 15 per cent of banking, finance and insurance workers. Turning to the composition of the low paid, **one in three low-paid workers are in retail** (29 per cent) **and one-quarter in the public sector** (23 per cent). One in ten work in hotels and restaurants (11 per cent) and in banking, finance and insurance (9 per cent), 15 per cent work in manufacturing and production, and the remaining 12 per cent in other services.
- **The majority of low-paid workers are women and are part time.** Forty-two per cent of those paid under £7 per hour are women working part time. Twelve per cent are men working part time, 23 per cent are women working full time and 23 per cent are men working full time.

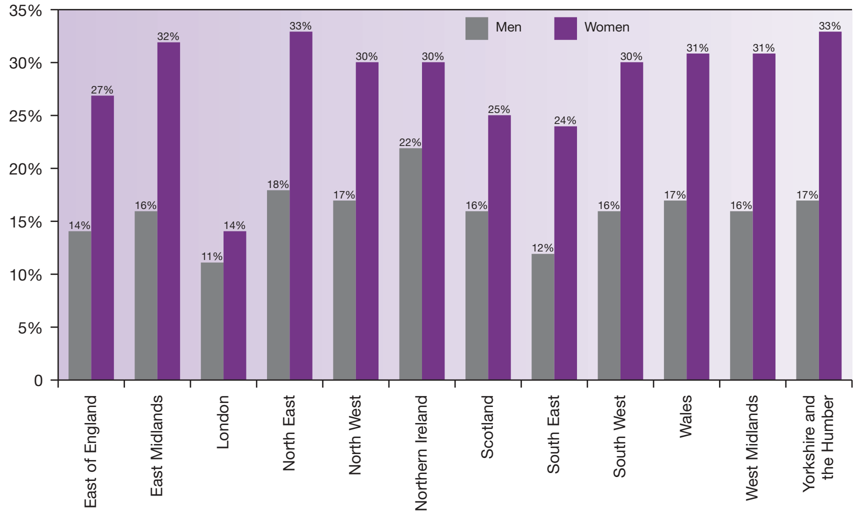
- **Disabled workers are more likely to experience low pay than non-disabled workers.** This finding applies to both full- and part-time work (the chances in each of being low paid are around 10 percentage points higher) and exists irrespective of skill level.
- **Bangladeshi (51 per cent) and Pakistani (46 per cent) workers are the most likely to be low paid.** Around one-third of Black African workers (32 per cent), White British (28 per cent) and Indian (28 per cent), and a quarter of Black Caribbean (23 per cent) workers have hourly wages below £7.

Low pay varies by region and country

This section uses two measures of low pay: low hourly rates and the proportion of children in families receiving working tax credit. On the first measure, while women are much more likely to be low paid than men, irrespective of region, in England they face the greatest chance of being low paid in the North East and in Yorkshire and the Humber. Men in Northern Ireland face the highest risk of being low paid. On the second measure, in 2006/07 of the 22 per cent of children in the UK living in a family receiving working tax credit, the proportion was again highest in Yorkshire and the Humber and the North East, and lowest in the South East, East of England and London.

Figure 2

Low pay (below £7 an hour) by geographic area, 2008



Source: New Policy Institute figures, available at www.poverty.org.uk

Table 2

Children in families on working tax credit, 2006/07

	Children in families on working tax credit		Children in low-income families	
	Number (000s)	Per cent	Number (000s)	Per cent
United Kingdom	2,895	22%	5,559	42%
England	2,402	22%	4,634	42%
North East	139	26%	263	49%
North West	388	25%	718	47%
Yorkshire and the Humber	295	27%	518	47%
East Midlands	221	24%	385	41%
West Midlands	298	24%	564	46%
East of England	224	18%	417	34%
London	311	18%	823	49%
South East	300	17%	558	32%
South West	227	22%	388	37%
Wales	159	25%	297	47%
Scotland	231	23%	428	42%
Northern Ireland	102	23%	198	45%

Note: 'Children in families on working tax credit' are those getting both working tax credit and child tax credit. 'Children in low-income families' include this group and those children in workless households.

Source: End Child Poverty Campaign. These figures are based on an analysis of tax credit data. Local authority and constituency data is also available at www.endchildpoverty.org.uk

Low pay is also linked to poorer job quality

Low earnings is one key problem, but low rates of hourly pay are also likely to be associated with lower job quality, reflected in aspects of job control, security, chances of progression, of training and other job-related benefits. Each of these aspects has an impact on the chances of job sustainability. Progress on the different aspects of job quality, including low pay, is important to help improve sustainability. Problems are compounded as families who are struggling to make ends meet may work longer hours and have multiple jobs, with the inevitable impact on their time to parent.

There is a relationship between both the current skill level and pay, and between skill levels and the likelihood of receiving training. Employers are currently less likely to invest in the skills of those at the bottom of the labour market.[15] The Leitch vision[16] of investing more widely in workplace skills to help employability and boost social mobility comes up against this barrier, and shows that more needs to be done (through schemes such as 'Train to Gain') to invest in all employees – not just those in secure jobs.

Low pay, the national minimum wage and working tax credit

There are two key protections against low pay: the legal minimum wage and in-work support (including working tax credit). This section considers the role of these mechanisms in reducing low pay.

Although the provision of in-work support is currently essential to protect some families from in-work poverty, our organisations believe that the key policy aim should be to raise the income level of low-paid workers and, within this, the proportion of income coming from pay. A more aggressive strategy is needed to achieve this. Increasing wages would have the benefit of reducing the proportion of means-tested support provided, which is complex and currently subsidises poor employment practices. Increasing the proportion of family incomes that comes from wages would also ensure that employment efforts are valued and recognised more fairly.

The national minimum wage has been a real success and should be raised

The national minimum wage recently celebrated its tenth birthday. It has been a tremendous success: no serious politician would now countenance a return to the unregulated wage abuses that occurred before 1999. The minimum wage is not only a widely accepted part of civilising the employment market, protecting and increasing the wages of the lowest paid, but it has not produced the unemployment ill effects that were predicted by the business lobby.

For much of 2009, the minimum wage will be £5.73 per hour for most employees (the development rate is £4.77 for those aged 18–21 years and £3.53 for 16/17-year-olds). The minimum wage has increased in real terms against wages since its introduction without ill effect. However, it is still set low (about 48 per cent of gross hourly median earnings).[17] Policy can, and should, have an explicit aim to raise its relative value in order to narrow pay inequality.

While the national minimum wage has successfully provided a wage floor for many of the most vulnerable workers, significant numbers are still paid below this level. Figures published in 2008[18] suggest that 1 per cent of the workforce (288,000) were paid below the level of the minimum wage and, although these figures do not prove non-compliance with the national minimum wage,[19] the majority (224,000) were aged over 22 years (and so were not subject to lower rates).

Women faced nearly twice the risk of being paid below the minimum wage level as men, and part-time workers were more than twice as likely as full-time employees to be in this group.

The tax credit system tops up wages, but subsidises poor-paying employers

It has sometimes been argued that increases in the national minimum wage are not a well-directed mechanism to raise real incomes because of the interaction with working tax credit and other in-work support. This interaction means that, for those entitled to it (particularly families), net incomes can be higher than gross wages imply (assuming in-work support is claimed).

Families with children may, for example, be entitled to a combination of means-tested child tax credit, working tax credit (which subsidise low wages and provides support for childcare costs), housing benefit and council tax benefit. As earnings rise, these means-tested entitlements are reduced. This means that additional income from employment generates a poverty trap in which higher taxes, and fewer tax credits or housing benefit, sap additional income. This effect is real and punitive: in 2009/10, two million employees will face high, so-called 'marginal tax rates', losing 60p or more in benefits and tax credits and paying more tax for each additional pound earned. A quarter of a million workers face marginal tax rates of over 80 per cent.[20]

The provision of in-work support is a clear recognition that the market delivers too low an income for many working people. Given that work is often presented as the best route out of poverty, in order for child poverty objectives to be met, it is essential that net incomes rise. This can be achieved within the current framework by making earnings disregards more generous, providing 'mini-job' support,[21] and altering the tapers and generosity of benefits and tax credits. In the longer term, Child Poverty Action Group's recent Manifesto[22] presents the case for shifting away from reliance on means-tested support because it is right that those on the lowest earnings are fairly rewarded for their labour (rather than the state subsiding low-paying employers) and because this helps to reduce families' reliance on complex, often unclaimed[23] and error-prone[24] means-tested benefits and tax credits.

Low pay and child poverty

This report started with the simple truth that most children in poverty have a working parent, but the link between employment and poverty is a complex one.[25] Child poverty is determined by household income (largely earned income, and benefit and tax transfers). Because the same income will stretch further in a smaller rather than a larger family, family size also matters. The way to increase gross employment returns is, therefore, to increase either earnings, the number of hours worked, or both. Net incomes are also affected by tax. Table 3 shows the child poverty risk by parental employment status.

Table 3

Risk of poverty by employment type

	Relative low income, before housing costs (government target measure)	**Relative low income, after housing costs**
Lone parent:		
in full-time work	10	22
in part-time work	22	32
not working	58	75
Couple with children:		
both in full-time work	2	3
one in full-time work, one in part-time work	4	8
one in full-time work, one not working	18	29
one or more in part-time work	54	61
neither in work	68	79
Average risk	**23**	**31**

Note: the definition is children living in households with needs-adjusted incomes below 60 per cent of the median income. The first column is the central measure informing government targets to halve child poverty by 2010/11 and eradicate it by 2020. The after housing cost measure is included as this gives a better indication of disposable incomes.

Source: Department for Work and Pensions, *Households Below Average Income: an analysis of the income distribution 1994/95-2007/08*, National Statistics, 2009

Breaking the risk of child poverty down by category:

- Child poverty rates fall when parents are in employment (because the safety net is set below the level of the poverty line).
- If parents are in part-time work (particularly so for couples with no full-time worker), a significant minority of their children are poor.
- The best 'guarantee' of children not being poor is to have two parents in full-time work, a model experienced by few children[26] and which may not be the way many parents choose to balance work and care.

These figures also only state risks of income poverty; they do not show the financial costs of work (for instance, transport and childcare). These costs often leave parents either feeling or being little better off in employment. While some support is available to help meet some of these additional expenses, families also lose out financially when they move off benefits into work. For example, although 80 per cent of childcare costs can be claimed via the childcare element of working tax credit (subject to income and threshold restrictions), parents still have to find the remaining 20 per cent, which leaves them little better off. Families have to pay for childcare when dropping off and collecting their children (who may be in different places) and when travelling to and from work, during which time they are not being paid. Part-time workers may have to pay for full-time childcare during holidays and half-terms in order to secure a place. Childcare constitutes a major erosion of low earnings.

Families who move off out-of-work benefits and into work also lose additional financial support, such as free school meals, which are available to families claiming out-of-work benefits, but denied to most families in work. The loss of free school meals has a negative effect on family budgets, and on children's health and development. Access to a hot, nutritious meal at lunchtime enhances children's concentration levels and their ability to engage with the educational process, and facilitates social inclusion in schools. Having a hot nutritious meal at lunchtime takes some of the pressure off food budgets at home. Both CPAG and GMB have campaigned for many years, calling for universal free school meals, and were instrumental in getting government commitment to the pilots that are now being put in place in England by the Department for Children, Schools and Families and the Department of Health to consider the health benefits of providing free school meals to all primary school pupils in two deprived local authorities, and of extending eligibility to those whose parents are in low-paid work. However, while other local authorities have made the decision to extend free school meals, the Scottish Government has gone further than elsewhere in the UK in proposing the provision of universal free school meals to all primary 1-3 pupils and extending free school meal entitlement to those in low-paid work (and getting both maximum child tax credit and maximum working tax credit).

For employment to become a much more reliable route out of poverty, additional costs need to be reduced, and the provision of financial support which enhances children's wellbeing and ensures that gains from work are maintained, is essential. Meanwhile, when parents find themselves little better off in employment, work may not be sustainable and they may get caught in a 'revolving door', moving in and out of poor-quality jobs (while their children move in and out of childcare provision). A large proportion of new claims for jobseeker's allowance, for example, are from previous claimants who had moved into jobs in the past six months,[27] which could not then be sustained. This 'churn' is particularly high for some groups (especially for lone parents)[28] and is not only damaging for both parents and children, but it is costly and undermines official attempts to increase the employment rate. Recently, there has been some general acceptance that policy must move from simply getting parents in to employment ('work-first' policies) to monitoring longer-term outcomes of moves into work.[29] **Employment policy also needs to consider not just whether people stay in work, but whether their pay lifts them out of poverty**[30] and whether they experience pay progression despite the poverty gap mentioned above.

Low pay and the recession

Low-paid workers face three key risks from a recession that was not of their making.

- As they are likely to be more insecure at work, they may face a higher risk of unemployment.
- As they are reliant on low pay, they are more likely to have fewer resources to fall back on and so will be the hardest hit if made redundant.
- For those remaining in work, employers may impose wage restraint on the lowest paid.

Although the evidence on the first risk – that low-paid workers are likely to face a higher risk of unemployment – is somewhat mixed, it seems likely that those paid the least are likely to have worse overall employment conditions, may consequently be the easiest to make redundant and often lack union representation. According to the New Policy Institute, just one in seven of those paid below £7 an hour are unionised, compared with 41 per cent of those earning £15–£20 per hour.[31]

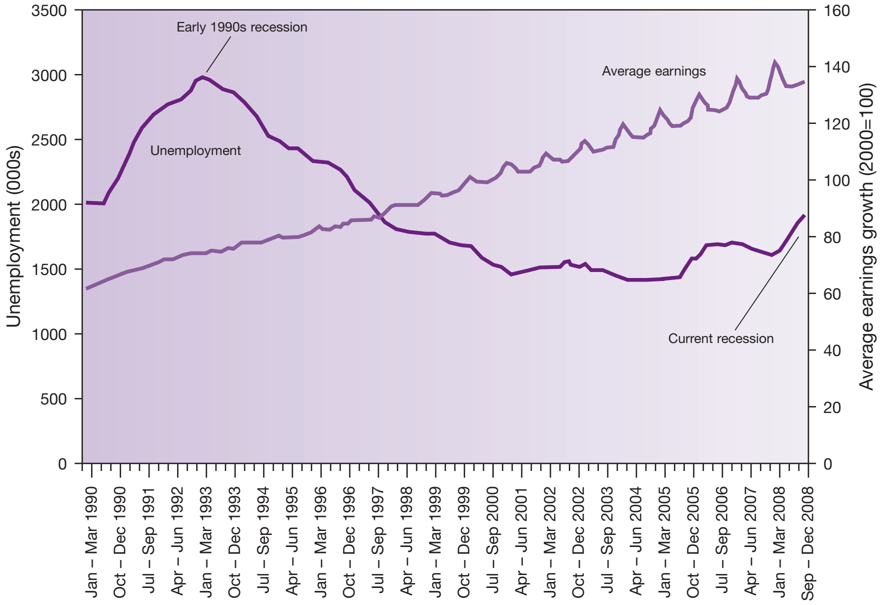
Labour market statistics show a mixed picture of where redundancies are occurring by industry. Of 263,000 redundancies in October–December 2008, 60,000 were in the manufacturing industries, 48,000 in construction, 49,000 in distribution, hotels and restaurants (where pay rates might be expected to be the lowest), and 52,000 in finance and business services.[32] Of these redundancies, around two-thirds were men.[33] Local data on jobseeker's allowance caseloads suggests two trends: caseloads are rising proportionately fastest in areas that had the lowest starting rates of unemployment, **but the largest numeric increases in jobseeker's allowance caseloads are happening in areas which already had high caseloads** (a more important measure in capturing the general scale of unemployment).[34]

The evidence on the second risk – that low-paid workers have fewer resources to fall back on – is provided by the Family Resources Survey data. There is a link between savings and work status and household incomes. Those who are either workless or who work part time are the most likely to report having no savings. **There is also a clear association between falling household income and rising proportions reporting low or no savings:** more than one-third of households with weekly incomes below £300 report having no savings at all.[35]

The third risk – that employers may impose pay restraint on the lowest paid – is complex. The most important point to stress is that the wage costs of the lowest paid did not drive the recession, and small increases to the minimum wage did not create the strain that business is now undoubtedly under. The causes must be sought elsewhere – in falling demand and the availability of credit. Statistics (for Great Britain and covering December 2008 to February 2009) show annual average earnings inflation of 0.1 per cent when bonuses are included; but 3.2 per cent when bonuses are excluded. This pattern is familiar – recessions and unemployment do not mean that *average* earnings necessarily stop growing.

Figure 3

Unemployment and average earnings growth, 1990–2008



Source: average earnings figures from National Statistics, *Average Earnings Index*, updated 22 April 2009, available at www.statistics.gov.uk/statbase/tsdataset.asp?vlnk=392&More=Y; unemployment figures are from National Statistics, *Labour Force Survey: unemployment by age and duration (16+ & working age)*, available at www.statistics.gov.uk/STATBASE/xsdataset.asp?vlnk=1385

Figure 3 plots average earnings' growth from 1990 onwards against unemployment. The most striking thing is the lack of an apparent relationship between unemployment and average wage growth. The chart does not suggest that serious pressures are not being experienced by business and other employers now, but rather that, if wage growth is going on, it is important that those on low pay receive a fair share of the growth. Since average earnings' growth does not appear to have slowed down during the recession of the early 1990s, it is not a strong argument to suggest that wage growth contributed to either higher unemployment or the subsequent recovery. **Even in a recession, it is important that the national minimum wage continues to rise in real terms.**

Conclusion: what can be done?

Just as excessive deregulation got us into the current mess, the prioritisation of GDP growth over fairness has resulted in high poverty rates. This report has argued that the recession should prompt a re-think, and that the public mood has shifted towards greater fairness. It is time, in other words, to put an end to sub-prime jobs.

This short report has sought to do several things:

- To highlight just how unequal earnings are in the UK, to show that many people are locked into low pay in spite of their efforts and so proves a moral case: that earnings at the bottom need to rise as part of the anti-poverty strategy.
- To urge that concerns about rising unemployment should not lead to restraining the rate of the national minimum wage. In the last recession, average earnings kept rising and so, therefore, should the national minimum wage.
- To argue that recent events have highlighted the large gaps in pay and income experienced in the UK, and the damage this has done. The public mood is in place for a fairer form of capitalism. Making sure that employment is decently paid will help realise that ambition.

The overarching aim of national pay policy should be to reduce inequalities: pay at the bottom should be rising faster than that at the top. This last section suggests some practical steps to make this happen.

Increase the national minimum wage

The national minimum wage has been a significant success. It has raised the incomes of many lower income workers, been of benefit to those experiencing the lowest rates of pay, and has not led to the unemployment predicted by those who opposed it. Clearly, businesses are hard-pressed in current circumstances, but so too are families.

Campaigners need to be vigilant to avoid the recession turning into an argument for those on low pay to share more of the burden. There is little evidence of a connection between pay rises and unemployment. A better strategy is one that narrows pay inequality by encouraging pay restraint at the top and allows those who have slipped behind to catch up by implementing above-earnings inflation increases to the national minimum wage. With this in mind, it is disappointing that the minimum wage will rise by just 1 per cent in October 2009. This will build pressure for a real-terms increase as the economy recovers. Progressive rises to the minimum wage are an important way to narrow pay inequality.

Extend the adult rate of the minimum wage to young workers

One specific move to be made on the minimum wage is to extend the adult rate to younger workers. We welcome the fact that the Government will extend the adult rate of the minimum wage to cover 21-year-olds from October 2010 and urge it to go further and increase its coverage to younger workers.[36] The minimum wage should be extended to cover apprentices and should not discriminate against younger workers.

Invest in training, targeted at those with low skills

One explanation for low pay is that individuals have low skills and so are considered less productive. Whether true or not, correctly applied training that provides the skills employers need and ensures that those at the bottom of the labour market are not excluded, can open a path to pay progression and to valuing talents more appropriately. Investing in human capital during the recession through training would also be a good way to capitalise on the economic recovery when this appears.

End pay discrimination

Pay discrimination remains a problem. A persistent gender pay gap and lower pay for many other minority groups increases the risk of in-work poverty. Wider use of pay audits to uncover pay inequalities is one key mechanism to identify those groups concentrated on low pay scales (recently proposed in the equality bill).[37] This tool, properly used, can effectively expose existing patterns and so encourage employers to interrogate their reasons and help root out discrimination. However, the private sector is excluded until at least 2013.

Tackle low pay in the public sector

One in four low-paid jobs are in the public sector. Not only does this highlight poor employment practice across central, local and devolved government and supply chains, but it is perverse. The Government is paying low wages to many employees on the one hand, while topping them up with tax credits on the other. Initiatives such as the Living Wage (which the Greater London Authority has signed up to) show what can be done. The Government cannot expect other employers to tackle low pay if it fails to do so itself. Government can lead by example by ensuring its own pay policies are more progressive.

Provide a decent minimum income for all

Finally, while policy makers ought to target low pay, this will not, on its own, deal with poverty. Some families will never have a parent in work (perhaps because of disability, or caring responsibilities) and, for others, paid work is unlikely to yield a sufficiently high income to lift them out of poverty. Other families experience falls in income after the loss of a job. More needs to be done to address the value of the safety net – raising both child payments (including child benefit) and adult rates of income support and jobseeker's allowance – in order to provide these families with an adequate standard of income, in and out of employment.

Notes

1 Department for Work and Pensions, *Households Below Average Income: an analysis of the income distribution 1994/95-2007/08,* National Statistics, 2009

2 National Statistics, *Labour Market Statistics April 2009*, April 2009, Table 19

3 Child Poverty Action Group, *Child Poverty: the stats*, CPAG, 2008, Table 8

4 HM Treasury, *Budget 2009: building Britain's future*, HM Treasury, 2009

5 National Statistics, *2008 Annual Survey of Hours and Earnings (ASHE) Analysis by all Employees*, available at www.statistics.gov.uk/StatBase/Product.asp?vlnk=15187

6 R Wilkinson and K Pickett, *The Spirit Level: why more equal societies almost always do better*, Allen Lane, 2009

7 Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009,* 2009

8 Common definitions include looking at a threshold (for instance, 60% of median full-time wages), or estimating how much is needed to live on, such as a living wage or a minimum income standard. The former is a useful measure of distribution. Though the 'living wage' has very significant moral force and has been an effective campaigning tool, it cannot easily take account of different family size.

9 GLA Economics, *The 2008 Living Wage in London*, Transport for London, London Development Agency and the Mayor of London, 2008

10 The hourly wages required to meet the minimum standard vary significantly by household size and numbers of workers. See J Bradshaw, S Middleton, A Davis, N Oldfield, N Smith, L Cusworth and J Williams, *A Minimum Income Standard for Britain*, Joseph Rowntree Foundation, 2008

11 See www.glasgow.gov.uk/en/news/livingwage.htm

12 National Statistics, *Labour Market Statistics April 2009*, April 2009

13 M Brewer, L Sibieta and L Wren-Lewis, *Racing Away? Income inequality and the evolution of high incomes*, Institute for Fiscal Studies, Briefing Note 76

14 Figures from www.poverty.org.uk/

15 See www.poverty.org.uk, Indicator 58

16 S Leitch, *Prosperity for all in the Global Economy: world class skills*, HM Treasury, 2006

17 Comparing the minimum wage with gross full-time hourly wage figures for 2008 (£11.97). See National Statistics, *2008 Annual Survey of Hours and Earnings (ASHE) Analysis by all Employees,* available at www.statistics.gov.uk/StatBase/Product.asp?vlnk=15187

18 National Statistics, *Low Pay Estimates April 2008*, 14 November 2008

19 Because not all would have been entitled to the wage, or some costs such as housing might be been offset against the wage.

20 HM Treasury, *Budget 2009: building Britain's future*, 2009, Table 5.2

21 See K Bell, M Brewer and D Phillips, *Lone Parents and 'Mini-jobs'*, Joseph Rowntree Foundation, 2007

22 Child Poverty Action Group, *Ending Child Poverty: a manifesto for success*, CPAG, 2009

23 HM Revenue and Customs, *Child Tax Credit and Working Tax Credit Take-up Rates 2005-06*, National Statistics, 2008; Department for Work and Pensions, *Income-related Benefits Estimates of Take-up in 2006-07*, National Statistics, 2008

24 See for example, Department for Work and Pensions, *Fraud and Error in the Benefits System: April 2007 to March 2008*, National Statistics, 2008

25 J Millar and K Gardiner, *Low Pay, Household Resources and Poverty*, Joseph Rowntree Foundation, 2004; K Lawton, *Nice Work if You Can Get it: achieving a sustainable solution to low pay and in-work poverty*, Institute for Public Policy Research, 2009

26 In 2006/07, only about 1 in 10 children were growing up in a household in which two parents were working full time. See Department for Work and Pensions, *Households Below Average Income: an analysis of the income distribution 1994/95-2007/08*, National Statistics, 2009, Table 4.5

27 Almost half of the men and one-third of the women. See New Policy Institute analysis at www.poverty.org.uk

28 M Evans, S Harkness and R A Ortiz, *Lone Parents Cycling Between Work and Benefits*, Department for Work and Pensions Research Report 217, 2004

29 See D Freud, *Reducing Dependency, Increasing Opportunity: options for the future of welfare to work*, an independent report to the Department for Work and Pensions, Corporate Document Services, 2007

30 A recommendation in the Harker Review. See L Harker, *Delivering on Child Poverty: what would it take?* A report for the Department for Work and Pensions, Cm 6951, 2006

31 See www.poverty.org.uk, Indicator 57

32 Office for National Statistics, *Labour Market Statistics April 2009*, April 2009, Table 24

33 Office for National Statistics, *Labour Market Statistics April 2009*, April 2009, Table 23

34 Author's analysis of claimant count by parliamentary constituency (March 2009 figures), obtained from www.nomisweb.co.uk

35 Department for Work and Pensions, *Family Resources Survey 2006/07*, National Statistics, 2008, Section 5

36 See 'Governmant Approves New £5.80 Minimum Wage Rate', Department for Business, Enterprise and Regulatory Reforms Press Release, 12 May 2009

37 Government Equalities Office, *A Fairer Future: the Equality Bill and other action to make equality a reality,* April 2009

General Secretary: Paul Kenny
GMB National Office, 22–24 Worple Road,
London SW19 4DD 020 8947 3131
www.gmb.org.uk