

The 'living wage', low pay and in work poverty: Exploring the difficult to resolve conceptual and pragmatic issues around the 'living wage'

 blogs.lse.ac.uk/politicsandpolicy/the-living-wage-low-pay-and-in-work-poverty/

12/10/2013

*The 'living wage' is an idea with a long history in the UK that is currently enjoying a renaissance. It clearly has great appeal as a motivating rallying cry for campaigners. But it also raises both conceptual and pragmatic issues that have proved difficult to resolve, writes **Fran Bennett**. Recent analyses that unpack low pay and in work poverty suggest some ways forward.*



The idea behind the 'living wage' is that wages should be paid at a level that ensures a socially acceptable and decent life. Some campaigners suggest this should be a legal minimum for all. But most instead argue for employers to pay the living wage voluntarily, and to ensure their sub-contractors do the same. There are active campaigns in the UK and US in particular, as well as efforts by ethical and fair trade initiatives and development NGOs to establish a living wage in the global south.

Sometimes, indeed, it can seem as though the living wage is an idea whose time has come – and the only game in town for low-paid workers. But, as Gavin Kelly of the Resolution Foundation has argued, it is also an idea that is 'under-interrogated'. This blog takes up that challenge.

There has, it is true, been extensive discussion about whether the potential gains in higher productivity and lower turnover amongst workers being paid the living wage outweigh the possible costs in terms of job losses. This debate is not specific to the living wage, however, but would apply to any means of raising the pay of low-paid workers. So it is not pursued further here.

Instead, what is suggested is that there are inherent conceptual difficulties in thinking of low pay as 'poverty pay', rather than as unequal rewards in the labour market; and that there are a number of practical problems in moving from a minimum weekly disposable income for an individual/family to the hourly gross pay rate for a worker needed to match that. In addition, the living wage raises complex issues about the appropriate roles of employer, government and others in meeting people's needs.

To take the more pragmatic perspective first, several key issues immediately arise when trying to work out what level the living wage should be. These are 'far from straightforward', as Donald Hirsch has indicated. They include, for example, what kind of household the living wage should be expected to support (how many adults and how many children); how many earners, working how many hours per week, should be assumed; and how various costs should be treated. Most campaigners take into account any means-tested benefits and tax credits that may be available, although some argue that pay levels should be sufficiently high for these to be unnecessary.

Some calculations have focused on arriving at a living wage level for a particular family type – such as a one-earner couple with two children, or a single person. But in the UK, a range of family types was traditionally used instead, with the results weighted according to their prevalence. This range is limited, though, and so must mean that – contrary to some claims – the living wage level is not necessarily going to be sufficient for all.

Government action of course affects the level of the living wage. Increases in the personal tax threshold, or in benefits for those in work, will mean a lower living wage is needed. Increases in costs also affect the calculation. These may cause fluctuations in living wage demands that make the target figure that emerges appear less realistic. In addition, when other workers are suffering pay cuts, it is politically difficult to argue that the living wage level should not take this into account. Recently, campaigners have therefore agreed that there should be limits on the living wage level approved, in relation to movements in average earnings and/or inflation, regardless of the level

produced by the formula (to be referred to as the ‘aspirational’ living wage level instead).

Living wage supporters can argue that while there is no easy solution to these problems, this does not prevent them from trying to find a central figure that approaches as nearly as possible to meeting the minimum needs of most workers. This is of course a more modest claim than is sometimes made by campaigners, and often understood by supporters.

But it still relies on seeing low pay as ‘poverty pay’, thus appearing to equate low hourly pay levels with in work poverty, and also the causes of each. There is clearly an overlap between these, and concern is growing about this. But recent analysis of low-paid workers suggests they are often young (increasingly perhaps living with their parents), part-time, on temporary or casual contracts and/or female. These are largely not the types of workers used in living wage models, however. Their low pay is important – not because they are necessarily living in a household in poverty now, but because their work may be under-valued in relation to that of others, and in some cases because over their life-course it will prevent them from being economically independent either in or out of work. This is a gender issue, too, because both these situations are more common amongst women.

Recent analysis of ‘in work poverty’, on the other hand, has shown that it can be due to a range of factors, not limited to low hourly pay levels. It is often associated with less than full-time or permanent labour market engagement at the individual level, and with single earners and low work intensity at the household level. ‘In work poverty’ is a portmanteau phrase that is ripe for unpacking; and its multiple causes suggest that a range of solutions is needed.

This suggests that it would be fruitful to explore approaches to low pay that emphasise the unequal structure of employment rewards and the gendered nature of the labour market. The dignity that living wage campaigners demand for all workers arguably relates more clearly to the value of the work one does than to a living standard for the household in which one lives. Calls for decent wage levels, or fair wages, and efforts to upgrade under-valued types of work, would be more in line with these considerations.

In addition, it was recognised many years ago that wages cannot take account of family size – which is why child benefit (previously family allowances) was introduced, and continues to be essential. The variety and range of employees’ needs should be met in part through targeted provision by employers – such as improved leaves for parents and carers. And government policies on social protection, and on services (including in particular free or lower cost childcare provision), are also key.

This blog draws on an article by the author published in Online First in June 2013 and due to appear in Critical Social Policy in 2014: ‘[The “living wage”, low pay and in work poverty: rethinking the relationships](#)’. It is based in part on recent joint work in collaboration with Ruth Lister; the author alone is responsible for any errors.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the Author

Fran Bennett is a senior research fellow, in the Department of Social Policy and Intervention, at the University of Oxford. She has a particular interest in social security policy, gender issues, and poverty, income distribution and participation.

