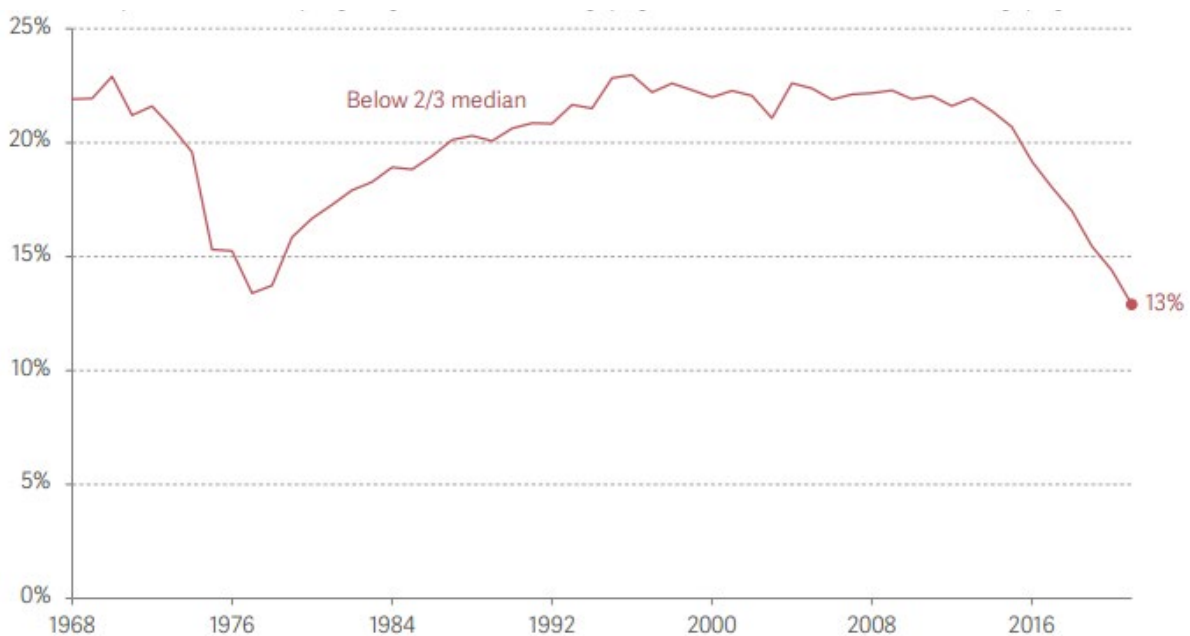


## Low Pay in Britain: Where are we now?

In his speech to the Conservative Party conference in October 2021 Boris Johnson declared that the UK's economic model was broken. The model was characterised he said by low pay and low productivity.<sup>1</sup>

The definition of low pay in Britain is based on that developed by the Organisation for Economic Co-operation and Development (OECD). Low pay is defined as hourly pay that is two-thirds of median earnings. For example in 2023 median hourly pay was £15.88, so low-pay employees were those earning below two-thirds of that, which is £10.59. High pay is defined as hourly pay that is 1.5 times the median, so high-pay employees were those earning anything above 1.5 times £15.88 which is £23.82.<sup>2</sup>

The proportion of employees in the UK who are low paid has changed considerably since the 1960s. The chart<sup>3</sup> shows the proportion of employee jobs with hourly pay below two-thirds of median earnings since 1968. From a low of just 13 per cent of employees in 1975 the percentage of low paid workers increased significantly during the 1980s. This upward trend continued into the 1990s, with the percentage of workers on low pay reaching a peak of 23% in 1996.



Despite the introduction of the National Minimum Wage three years later in 1999 the percentage of workers on low pay changed very little over the following 15 years. By 2015 the number of workers on low pay was not very different from what it had been in 1998, 20.7% or 5.5 million, as against 22.6% in 1998. In 2016 the Conservatives introduced the National Living Wage. It brought in a higher minimum wage for employees aged 25 and above and was extended in 2021 to workers aged 23 and above. The National Living Wage has had “a significant impact on the wages of low-paid workers.” The number of workers who are low paid, when looked at in terms of hourly earnings is now at its lowest ever level, 8.9% or 2.9 million.<sup>4</sup> The National Living Wage at £10.42 an hour is now only 17p below the low pay threshold of £10.59.

Low-paid work in the UK is mostly made up of jobs in services within the private-sector – retail shops, bars and restaurants, hotel accommodation, health and social care. In 2019 around 20% of private sector workers were paid below two-thirds of median hourly earnings compared to just 4 per cent of public sector employees.<sup>5</sup> In 2023 the total number of jobs paid below the minimum wage and national living wage was 366,000 or 1.3% of all employee jobs.<sup>6</sup>

Despite the success of the National Living Wage in reducing the number of workers on low hourly pay, it has only had a limited effect on low weekly pay. This is because low weekly pay is now much more about low hours than low rates of pay. In 2023, 23.5% or 7.6 million workers had low weekly pay. Not all workers in low weekly pay want to work more hours, but many do, about 21 per cent or 1.6 million. Nor has the National Living Wage benefited low-paid self-employed workers. The number of self-employed workers on low hourly pay is almost three times as high as it is among employees. Self-employed workers are also more likely than employees to be in low weekly pay. Almost half of the self-employed, around 2 million, are on low weekly pay, compared to 23.5% of employees.<sup>7</sup>

The rise in low paid jobs resulted from the deindustrialisation of the 1980s and 1990s. This led to a dramatic decline in the number of employees working in industry. At the same time there was a huge increase in the number of people working in services. Although the growth of services saw highly skilled and highly paid jobs in areas such as education, health and finance, a large part of the services sector saw an increase in low-paid and insecure jobs. For example the number of care assistants and attendants in social care increased by 419%. Cash desk and checkout operators went up by 94%. And in hospitality the number of bar staff went up by 58%, while waiters and waitresses increased by 50%.<sup>8</sup>

The number of low-paid and insecure jobs has also increased due to outsourcing and subcontracting. From the 1980s an increasing number of workers in activities supplied to the NHS, local authorities and other public bodies have private employers, but their jobs are publicly funded. “.....the vast majority of outsourced public services are..... low-paid employees.”<sup>9</sup>

The huge increase in low paid jobs within the service sector has been accompanied by government support. As one economic historian has written, “*A free market in labour in deindustrialised Britain meant politically unacceptable levels of wages.*”<sup>10</sup> As a result low wages have been topped up by tax credits. Between 1985 and 2016 total spending increased from £1 billion to £30 billion in cash terms and from 0.3 to 1.5 per cent of GDP.<sup>11</sup> Tax credits are now the largest element of welfare spending at 13% after pensions at 41%, followed by housing benefit at 11% and disability benefits at 10%.<sup>12</sup>

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## Notes

Since April 2023 the National Minimum Wage, which now applies to workers under the age of 23, has been £10.18 for workers aged 20-22, £7.49 for those aged 18-20 and £5.28 for those under 18. The National Living Wage is set at £10.42 per hour and applies to workers aged 23 and over. From April 2024 the National Living Wage will rise to £11.44 an hour and is to be extended to 21-year-olds.

While pay is measured at the level of the ‘individual’, income is measured at the level of the ‘household’ – so an individual may be on low pay but other members of his or her household could also be earning.