



THE LIVING WAGE

...is a concept that's gaining traction and support in both the UK and US – and it seems here to stay.

But **PROFESSOR STAN SIEBERT** argues that it doesn't help the really poor. Instead, it only succeeds in...

Giving to the haves

The living wage campaign is designed to relieve poverty, but it is misdirected because being jobless is the most important cause of poverty. Also, low pay is the result of low skills. We all wish to see a continuing reduction in poverty, but we need to address the underlying issues of poverty.

By tackling the structural issues, we can get to the root causes of poverty, such as poor education and family breakdown, rather than masking them through the living wage which benefits those working in prospering firms whilst doing nothing for the really poor.

The concept of the living wage is attractive, and it is receiving well-funded support both in the UK and the US. The Resolution Foundation's latest report (Lawton and Pennycook, 2013) shows this support. The

paper is well written, and has good ideas on how to advance the living wage, including amending the corporate governance code to require listed companies to publish the proportion of their staff paid below the living wage.

There is now a "living wage accreditation process" to which several local authorities have signed up, as well as high profile private sector employers such as KPMG, Deloitte, Linklaters and Lloyd's of London.

The living wage is also receiving heavyweight academic support with Professor Alan Manning of the LSE (2012, p 23) envisaging the Low Pay Commission making "non-binding judgements" on affordable wages by sector. He sees such judgements as strengthening the arm of employees in securing better pay deals (and perhaps trade unionism would be

strengthened thereby).

The living wage campaign seems here to stay, and we need informed discussion about this policy. Five arguments against the living wage are given below.

Jobs are vital to improving living standards

The best research here is by Steve Nickell who says simply (2004, p C2): "worklessness is a key factor" in determining whether people are poor.

Using a relative definition of poverty (see below for an examination of the concept of absolute poverty) based on receiving less than 60 per cent of median household income after housing costs, Nickell points out that about 20 per cent of people in the UK are poor, and this happens mostly when no-one in the household works. From his data, we can construct *Table 1* for individual poverty in 2000.

We see that 27 per cent of people are either workless, or only in part-time work. These groups are highly likely to be relatively poor. For example, 64 per cent of the workless are in poverty. Only 8 per cent of those in full-time work are in poverty.

Because the living wage cannot reach those without work, and many of those in work who would benefit from the living wage are from well-off families, it cannot help the really poor.

Lawton and Pennycook (2013, p36) even admit that only 10 per cent of low earners live in poor households, so that (p37) "the biggest beneficiaries from broader LW coverage would be middle income households". This is, indeed, a very interesting concession from the proponents of a living wage.

The UK's school and welfare systems fail the poor

Of course, getting people into work, and raising their skills so that they earn more in work are the problems that need to be solved.

The UK has a high percentage of adults who are poorly

	% individuals	% of each type in poverty	% contribution to overall poverty
Workless	17	64	51
Part-time work	10	29	14
Single/couple one or both full-time working	73	8	35
Total	100	21	100

Table 1: Poverty and work status

Source: Nickell (2004) Table 2.

	Lowest level literacy	Lowest level, quantitative literacy
UK	22 (17)	23 (25)
Germany	14 (19)	7 (21)
Netherlands	11 (12)	10 (14)
Sweden	8 (13)	7 (13)
US	21 (22)	21 (33)

Table 2: Adult illiteracy, mid-1990s

Source: Nickell 2004. Scores are from the International Adult Literacy Survey (IALS) in mid-1990s (bracketed scores OECD 2013 Adult Skills Survey – 16-65 ages).

Note: Quantitative literacy measures knowledge of basic mathematics.

skilled. *Table 2* shows how the UK is as bad as the US, which is a much bigger and more heterogeneous country.

Countries such as the Netherlands and Sweden do much better than we do with those at the bottom end of the ability range in the education system.

We should try to address this problem through the education system. However, it is worth noting that family breakdown leads to poor schooling and poor employment prospects.

Iain Duncan Smith, Secretary of State for Work and Pensions (CSJ, 2007, p5) puts it well: "In the UK we now have one of the highest divorce rates, and the fabric of family life has been stripped away...with destructive effects upon millions of children...and links with addictions, educational failure and serious debt".

Table 3 shows the progressive breakdown of the family. This breakdown links to the way in which the welfare state penalises intact couples with children, the "partnership penalty".

For example, in a typical household where the man earns £15,000 and the woman (caring for children) £5000, living together brings £2,300 in benefits; but, by living apart, the female carer gains £7,800 (CSJ, 2007, p89), a partnership penalty of £5,500.

This penalty is felt only by low earners who become progressively more entrapped by the welfare system, a process well explained in Charles Murray's famous 1984 book "Losing Ground".

These problems need to be addressed via changing the welfare system, and improving



BECAUSE THE LIVING WAGE CANNOT REACH THOSE WITHOUT WORK... IT CANNOT HELP THE REALLY POOR

the school system, including, for example, reducing local authority and union control. But the living wage has nothing to contribute to these important issues.

The market works

It is important to emphasise that the free market has delivered real improvements in living standards for unskilled workers. These improvements have come about without social engineering or union action – or indeed a minimum wage.

Table 4 shows this real-terms

improvement for the bottom 10 per cent – increases in real wages represent a considerable reduction in absolute poverty.

Moreover, it is interesting to note that the improvement has come as much in the 1986-98 period, before the national minimum wage, as after.

This absolute reduction in poverty has come about at the same time as relative poverty (measured by the ratio of the top to the bottom 10 per cent) has worsened, which shows that relative poverty can be misleading when it comes to consideration of the living standards of the poor.

The living wage is not especially "moral"
The living wage comes from the same school of thought as the national minimum wage. However, the living wage is intended only to apply

Percentage of families with dependent children	1972	1992	2001	2011
Lone parent	6	16	20	24
Couple	94	84	80	76

Table 3: The rise in lone parenthood
Sources: CSJ (2007, p26) and Labour Force Survey (LFS), Office for National Statistics

selectively, raising wages only where they are already relatively high (amongst employees of government and big firms and, as we have seen, predominantly amongst people who are not in the least-well-off households).

Donald Hirsch (2012), for the Rowntree Foundation, believes “the moral pressures are winning out over the economic pressures for a number of employers wanting to be seen to be doing the right thing”.

But the living wage would only help “the haves”, which does not seem particularly praiseworthy or moral, especially if it came at the expense of high youth and long-term unemployment.

To give an idea of the groups that the living wage would pass over, *Table 5* shows long-term unemployment in terms of working-age incapacity benefit claimant rates.

We see, for example, that Cambridge has a rate of only 2.9 per cent, but Glasgow East has a rate of 16.8 per cent. In other words, people have given up looking for work and are seeking alternative pathways through the benefits system in places such as Glasgow and Liverpool because jobs are so scarce.

These are also areas of multiple deprivation, because nearly half of the families in Liverpool (CSJ 2007, p86) are also headed by a lone parent. Yet the living wage campaign would aim to raise wages in Wimbledon and Buckingham.

Real earnings, in 2011 prices	1986	1998	2011	Increase
Bottom 10% of earnings distribution £/hour	4.80	5.88	7.00	46%
Top 10%	14.78	22.13	26.75	81%
Ratio top/bottom	3.1	3.8	3.8	

Table 4: Increases in real earnings for the bottom 10 per cent *Source: ONS (2012)*

Parliamentary constituencies with highest incapacity benefit rates (population 16-64)		Parliamentary constituencies with lowest incapacity benefit rates	
Glasgow East	16.8	South Cambridgeshire	2.9
Glasgow North East	15.3	Maidenhead	2.7
Aberavon	15.0	Buckingham	2.4
Liverpool Walton	14.8	Wimbledon	2.3

Table 5: Incapacity benefit claimant rates, November 2011

Source: McInnes 2012 Table 3.

There are better policies than the living wage

A functioning market – which would require both lower benefits and lower wages in Liverpool than in Cambridge – would attract business, and relieve poor unemployed people.

Additionally, this would – if the planning system functioned properly – also attract people to move to seek higher-paid employment in more prosperous areas. To facilitate this, tax breaks for businesses in development areas could be considered.

John van Reenen from the LSE and Richard Lambert (formerly from the CBI) in an article in the FT on January 30th 2013 make three suggestions to improve productivity and wages based on people, infrastructure and innovation.

Under the people heading they call for better schooling and training, including more autonomy for schools to bring us to the levels of the Netherlands as mentioned above. They also call for more investment in transport, telecoms, energy and housing. Finally, they call for more competition in banking.

These ideas, if implemented properly, leave the living wage in the shade. They could be win-win policies rather than policies that lead some poor people to gain at the expense of others and people in relatively well-off households to gain at the expense of those who cannot get jobs.

Professor Stan Siebert
University of Birmingham
w.s.siebert@bham.ac.uk

References

CSJ (2007), *Breakdown Britain: Fractured Families*, London: Centre for Social Justice.

Hirsch, D. (2012), *The Living Wage: Where Morality and Economics Meet*, blog post for Joseph Rowntree Foundation, 12 Nov 2012.

Lawton, K. and Pennycook, M. (2013), *Beyond the Bottom Line – the Challenges and Opportunities of a Living Wage*, London: Resolution Foundation and IPPR.

Manning, A. (2012), *Minimum Wage: Maximum Impact*. London: Resolution Foundation.

McInnes, R. (2012), *ESA and Incapacity Benefit Statistics*, House of Commons Briefing Note SN1420, July 2012.

Murray, C. (1984), *Losing Ground*, New York: Basic Books.

OECD (2013), *Skills Outlook: First Results from the Survey of Adult Skills*, Paris: Organisation of Economic Cooperation and Development.

ONS (2012), *Real Wages up 62% on Average over past 25 Years*, London: Office for National Statistics

Van Reenen, J. and Lambert R. (2013), *Britain needs a long-term prosperity plan*, *Financial Times* 30 Jan.

Nickel, S. (2004), *Poverty and Worklessness in Britain*, London: Centre for Economic Performance.