Low Pay and Productivity in Greater Manchester: Summary of Main Findings

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This short report covers the main findings of New Economy's research on low pay and productivity. It summarises the conclusions of four reports: *Low Pay and Productivity in Greater Manchester* (the project's main report); *The Economic and Fiscal Impact of Low Pay in Greater Manchester (*which examines tax credits*); Low Pay and Progression in Greater Manchester (*exploring the issue of progression from low wage work*); and Business Models, Skills Utilisation and High Performance Working Practices in Greater Manchester (*which considers employer strategies and their influence on employment practices*).*

Findings

1. The extent of low pay is sensitive to the measure used. The number of people in Greater Manchester who earned less than the low pay threshold (defined as two thirds of national median income, or £7.74 an hour in 2014) has increased during the decade leading up to 2014 (from 210,780 in 2004 to 233,500 in 2014). Yet when viewed as a percentage of the Greater Manchester population this figure is stable, with approximately 22.4% earning less than the low paid threshold in 2004 and 22.5% in 2014. More people in Greater Manchester earned less than the low pay threshold than the UK average (21.2%) in 2014.

2. However, the low pay threshold is beneath the level of the 'living wage' (£7.85 an hour outside London in 2014; £8.25 an hour since November 2015) – enough to maintain a 'basic acceptable' standard of living for an 'average worker'. The number earning less than a living wage has grown sharply in recent years. For example, in 2013 the proportion of employees earning less than a living wage in Greater Manchester was 21.7%, but by 2014 this had increased to 23.3%%[1]. Provisional data released in December 2015 suggests the proportion has risen once more to just over 24%.In some parts of the conurbation more than a third of jobs paid less than the living wage of £7.85 (but this is not the same as the proportion of residents who earn less than a living wage).

3. Yet while alternative measures tell subtly different stories on low pay, the overall living standards of people living in Greater Manchester have fallen faster than those in the rest of the UK. Average hourly pay (for all workers) in 2014 was below that of 2002. In 2004, workers earned £11.62 on average for every hour they worked. By 2014, and adjusted for inflation, it was £11. Since 2009 wages have fallen by 10% in Greater Manchester (compared with 9% in the UK). Until 2007 the pay gap between Greater Manchester average wages and the UK was declining, but by 2014 was expanding again.

[1] This figure uses an average of the 10 Greater Manchester districts

4. The very lowest hourly paid workers in Greater Manchester (at the 10th percentile of the wage distribution) experienced a 7.1% drop in their real pay between 2007 and 2014 (from £7.13 an hour to £6.57 – close to the National Minimum Wage, which at that time (2014) was £6.50). But low-paid workers earning rates slightly above the legal pay floor (at the 20th percentile or bottom fifth of the wage distribution) saw a larger 10% fall in their incomes (from £8.26 an hour to £7.44 an hour). This was the same percentage fall as workers earning far higher incomes (at the median and at the 80th percentile). The legal pay floor thus appears to have reduced the post-recessionary pay drop for the very lowest paid, but exposed those just above the pay floor to disproportionately severe pay cuts.

5. 'Low paying sectors' (defined as sectors in which at least 30% of jobs pay below the low pay threshold) account for 35.7% of all jobs out of Greater Manchester's total employment of 1.2 million. Some 400,000 people work in these sectors in Greater Manchester. The sectors with the highest incidence of low-paid work are hospitality (76% of jobs are low paying), accommodation (60%), retail (53%), cleaning (53%) and residential care (53%). The largest single low paying sector is retail with 121,700 employees (accounting for 10% of all employees).

6. Approximately 130,000 women (27%) and 90,000 men (18%) were low paid in 2014. Some 44% of part-time jobs and 17% of full-time jobs paid less than the low pay threshold. The wages of men have declined most during the recession and after it, leading to a shrinking of the gender pay gap due to male 'levelling down'. In 2002, average pay for men was £13.48 and for women it was £9.78 an hour (a gap of 38%). By 2014, after adjusting for inflation, men earned an average of £12.92 an hour and women earned £10.37 (a gap of 25%).

7. Among young people under 25, well over half (55%) are low paid. In sectors such as accommodation and hospitality between 80% and 90% are low paid. Low pay reduces among people over 30, but is also an issue for workers aged over 50.

8. Small firms – especially those with fewer than 20 employees - are far more likely to pay low wages. Small firms are, however, the organisations which generate 90% of jobs.

9. There is a lack of high-quality data regarding the wages of self-employed workers on a Greater Manchester level. However, self-employment has grown faster in Greater Manchester than in the UK, but from a lower starting point. In the year to March 2014, the self-employed in Greater Manchester were 13.2% of those in employment (compared to 14.7% in the UK). Between March 2012 and March 2014 this number grew by 19.2% in Greater Manchester compared with 9.1% in the UK. Some estimates suggest 51% of the self-employed are in low wage work[2].

[2] See Corlett, A. and Gardiner, L., Low Pay Britain 2015, Resolution Foundation, October 2015

10. Greater Manchester's post recessionary work culture has become more 'casual', as evidenced by the rapid expansion of employment agencies. Employment agencies generated more additional jobs than any other sector between 2009 and 2014 (15,000).

Productivity: does it cause low pay?

11. Most economists would begin their explanation of low pay from the concept of productivity. Greater Manchester's Gross Value Added (GVA – the standard measure of sub-national output) per job is £39,328 compared with the UK's of £45,093. There are five sectors with productivity of less than £30,000 per job in Greater Manchester and they correspond with the lowest paying sectors with minor exceptions ('other personal services'[3] and textile manufacturing, which has relatively high productivity but pays low wages). The five low-productivity sectors are: administrative and support services; human health and social work; arts, entertainment and recreation; accommodation and food services; and retail. The low productivity sectors account for a growing share of jobs. In 2000 they represented 35% of employment. By 2014 the proportion was 40%. Two sectors are responsible for most of this growth. They are administrative and support service work (10.3% of all jobs) and human health and social work activities (12.7% of all jobs).

12. The low productivity sectors have grown at a faster rate in Greater Manchester than the UK (by 5.1 percentage points (ppt) compared with 3.6ppt in the UK). However, this growth appears to be at least in part due to additional jobs being created, rather than a downgrading of the existing sectoral base.

13. But the conurbation's sectors with the lowest absolute productivity have nevertheless been relatively productive over recent years. Their performance has outpaced average productivity growth between 2000 and 2014 (average annual growth between 2000 and 2014 was just 1.3%). The low productivity sectors exceeded this rate (with the exception of administrative and support services). The worst productivity lags are among the more knowledge intensive (and better paying) sectors such as business and professional services, property, manufacturing and digital work.

14. Jobs in the low productivity sectors are typically people-facing, interactive service tasks that are difficult to automate (and to a lesser extent to standardise) in order to drive productivity improvements. They have been productivity laggards throughout recent economic history. The exception may be retail, which has seen greater increases in productivity (spurred by automation, self-service and online innovation)

[3] 'Other personal services' is a very small group (just 7,500 total jobs) which includes hairdressers, beauticians, undertakers, wellbeing therapists, tattooists and pet care workers.

than the others. For these reasons, the chances that productivity growth in most low productivity sectors will reduce the incidence of low pay in the near to medium future are slim.

How the low paid perceive life at work

15. From the perspective of low paid workers, wages are not the main problem they face, but are part of a package of job quality issues. According to interviews for this research, the principal complaints of low paid workers related to insecurity (for example, not knowing when or where the next shift would occur until they received a text message), the chaotic, ad-hoc nature of organizational management, the use of agency staff and inaccurate payments for hours or shifts worked.

16. The burdens for low wage workers caused by extended outsourcing and contracting out (for example, the two-tier workforce, organisational turmoil and opaque accountability chains) emerged extremely strongly from interviews. Complex contractual arrangements were associated with ‘being unproductive’ and ‘inefficient’ by some interviewees.

17. The low paid tend to feel their work situations were ‘the way of the world’ over which they had limited control. Asked about the possibilities of promotion, the prevailing view was ‘I’ve never asked and I’ve never been told’. Most claimed to feel a strong attachment to ‘doing a good job’, but they felt their employers did not share their values and were uninterested in using their skills.

18. Cost pressures have driven employers to implement extreme working patterns (for example, in the care sector scheduling rotas for three half hour appointments in each hour) that interviewees felt resulted in low quality services. Some care companies also recruit from economically troubled European Union countries in order to secure graduates to work in the Greater Manchester low wage economy. Carers can receive as little as one week’s training before starting client-facing work.

The role of skills in Greater Manchester’s low paying labour markets

19. The low paid tend to have lower qualification levels than others. Those without any qualifications have the lowest average pay rates (£8.07 an hour). Yet pay progression does not always follow skill progression, especially in lower wage work. For example, at level 2, our research confirms other research in finding ‘negative returns’ at level 2, meaning that those whose highest qualification is level 2 earn less on average than those with lower qualification levels. Meanwhile, some vocational education qualifications are of lower labour market value (in terms of wages paid) than academic qualifications (for example, those whose highest qualification is a vocational level 3 tend to earn less than those with A levels), which is theoretically equivalent. There are clear wage returns to an apprenticeship, but again workers with an apprenticeship under their belt tend to earn slightly less than those whose highest qualification is at A level. There are, however, very wide discrepancies lying behind

these averages (the results for both intermediate and advanced apprenticeships have been averaged).

20. In general, low paid occupations are low skilled occupations. The low-qualified form 61% of the low paid, compared to being 36% of the workforce, although there are many who are low paid and are qualified at level 3 and above. In two low paying occupational groups – elementary occupations and sales and customer service occupations – most workers have a qualification level no higher than GCSEs. Yet there are groups for whom the relationship between skill and pay does not hold. Workers in the caring, leisure and other service occupations are typically medium skilled (nearly two thirds are either educated to degree level, hold other higher education qualifications or have a level 3 qualification) but are low paid.

21. In addition, there are different patterns regarding the evolution of pay and skill. High paying, high skilled work grew by 3.3% in the last decade. Medium skilled work has shrunk by 4.7%, but medium paid work has declined by a smaller proportion (2.1%). Meanwhile, low paying work has grown slightly (0.6%), but low skilled work has shrunk by 2.1%. These patterns render popular labour market metaphors such as 'the hourglass model' potentially misleading.

22. But the inference should not be drawn that increasing qualification levels will 'solve' low pay. Qualification is a poor proxy for skill – international evidence suggests this is a particular problem in the UK. Employers do not necessarily value the skills the system produces (in wages terms). And there are profound issues on the demand side: poor use of skills, inadequate job design and ongoing problems with over-qualification (about a third of workers in the UK claim they are over-qualified).

23. Demand for skills is also constrained by the business models of Greater Manchester employers. Employers in the city region appear to pursue 'low cost, low value, low skill' business models to a greater extent than is the norm in the UK. Some 21% of Greater Manchester businesses have 'low or very low specification product market strategies'. This compares with 18% for the UK as a whole. This low road approach implies lower demand for skills than would be the case if customised, differentiated, innovative (and in turn higher cost) products and services were being marketed by more employers. Some 45% of businesses in the UK have 'high or very high PMS strategies', according to data from the Employer Skills Survey [4]. In Greater Manchester the figure is 42%, although this is higher than other cities such as Sheffield and Liverpool.

[4] UKCES, 2013, available at https://www.gov.uk/government/collections/ukces-employer-skills-survey-2013

Labour market progression: are the low paid able to move up at work?

24. Using Labour Force Survey microdata from 2011-2015, we examined a 15-month period to investigate levels of dynamism in low paid work. The research asked how many manage to move from below the low pay threshold to above it (or who fell back below it) over the time period.

25. Just under two thirds of workers (61%) who were low paid at the start were still in low paid work at the end of the period, suggesting levels of upward mobility among the low wage workforce are limited. Those who 'escaped' low pay were 33% (about 53,000 people), while a small minority (6% or 10,000) left to joblessness. However, there was also a significant group (28% or 51,000) who were not low paid at the start of the observation period, but who had moved down into low paying work. Thus the escapers and decliners are close to being in balance: almost as many go down as progress upwards.

26. The low paid labour market is more dynamic than the market overall. In Greater Manchester as a whole 7% changed jobs over the 15 month period. Among the low paid it was 12%.

27. The majority of 'the stuck' (ie. those in low pay at the start and end of the period) were qualified no higher than level 2, but the data suggested neither training nor qualification attainment helped people advance. In the case of training this was *negatively* associated with pay – that is, those who received training were more likely to be stuck than those who escaped (fewer of whom received training). This could be due to the nature of the training, such as inductions or health and safety, which are mandatory rather than value adding. Although escapers' qualification levels were higher (above level 2), those whose pay declined also had higher qualification levels. Further research is needed to test this relationship more thoroughly.

Tax Credits: what are the fiscal costs of low pay and the consequences of budget reforms?

28. Greater Manchester has a higher dependence on the tax credit system (working tax credit and child tax credit) than most other comparable city regional areas and the UK as a whole. In 2012/13, 219,000 people received tax credits, with 70% being spent on people in work. Some 10.25% of residents receive tax credits – a higher share than the UK (8.43%) and the average for other metropolitan areas (9.93%).

29. Per working age adult, Greater Manchester spends £715.33 compared with a UK average of £573.73. Only the West Midlands has a higher outlay (£802.69).

30. In practice, tax credit spending is heavily oriented towards families with children, especially lone parent families which have a particularly high take-up of tax credits.

By family type, 14.4% of families with children, 32.8% of lone parent families, and 1.5% of childless households receive tax credits. The self-employed also have a particularly high incidence of tax credit receipt in the city region (14%).

31. In 2012/13, Greater Manchester spent £1.556 billion on tax credits, up from £974m in 2005/6 (a real terms increase of 29%; the UK average was 26%). Spending on tax credits rose in real terms between 2005 and 2010, but has been falling in recent years due to tightening eligibility for CTC. By contrast, WTC has been rising but accounts for a lower proportion of tax credit spending overall (in 2012/13, £65.2m WTC went to childless recipients – an increase of 100% on 2005/6; £130.4m CTC went to in work families receiving CTC only – down from £374.6m a decade earlier, a fall of 65%); and £885.4m went to in-work families receiving both types of tax credit, an increase of 34%).

32. About three quarters of the recipients of tax credits are on income levels above the minimum wage. In Greater Manchester 24.15% of tax credit recipients receive the NMW (UK average: 21%). Therefore changes in the legal pay floor will not necessarily be sufficient to eliminate the need for in-work support.

33. Initial analysis suggests employers 'benefit' from approximately a quarter of tax credit spending (this finding was derived by contrasting the wages of 24 year olds with 25 year olds, 25 being the age for tax credit eligibility; however, importantly, this method does not capture the higher tax credit expenditure among older people who are more likely to have children). Twenty five year olds suffered a statistically significant fall in their wages relative to 24 year olds as tax credits took effect.

34. In terms of reducing tax credit dependence, programmes encouraging the labour market participation of lone parents and second earners are likely to have larger monetary effects than moving more workers up to the level of the living wage.

35. The advent of the proposed 'national living wage' of £7.20 from April 2016 for workers aged over 25 is estimated to benefit approximately 13% of Greater Manchester residents who currently earn less than this rate. The target of £9 an hour by 2020 will shift the legal pay floor to about 60% of median earnings - far higher than ever before.

Conclusions

36. There is no one single policy on one specific issue that will address the challenges arising from low wage work in the city region. Instead, the report highlights a series of considerations that could shape future responses to low wage work across several distinct, but inter-related policy fields.

37. **Business Support**: Noting that low pay is not solely a supply side issue, encouraging employers to adopt higher value business models through leadership and management programmes and workforce development (including apprenticeships)

may also help to address low pay, albeit over the longer term. Inadequate skills utilization is also an aspect of the low pay debate. Encouraging and facilitating consideration of new techniques, management approaches and employment practices are a potentially significant avenue for future exploration.

38. **Skills**: The city region enjoys increasing power over skills budgets. Where possible and appropriate, budgetary control can be used to support labour market progression by prioritizing skills interventions that enable individuals to access better paying jobs.

39. **Living wage**: Through acting as a local leader (both as an employer and as a procurer of other goods and services), and by working alongside other prominent employers, the Combined Authority and other public sector organisations can support wider adoption of the living wage.

40. **Job security:** However, wage policies (such as the living wage) are best positioned as part of a package of reforms alongside other initiatives designed to support good employment practices rather than as a 'solution' to low pay in themselves. For example, taking steps to reduce the use of some types of work associated with insecurity (such as zero hours contracts) could also help to support better jobs in a local area.

41. **Childcare**: Supporting the ability of low paid workers to increase their hours or consider other employment opportunities implies that consideration of how to support working parents with childcare should also be part of the platform of policies to mitigate low wage work. National reforms will double the entitlement to free childcare, beginning in 2016. However, Greater Manchester may wish to test the scope for local flexibilities in this area to explore whether childcare provision could be designed in a more targeted and cost effective way so as to focus support on people earning low wages.

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