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Raising the benchmark:
The role of public services in tackling the squeeze on pay

Report by the New Economics Foundation commissioned by UNISON

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.

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Foreword

No one knows better than Britain's public service workers what a cost-of-living crisis feels like. Long years of wage freezes combined with rising prices have trapped many in in-work poverty and growing debt.

Commentators now largely agree that addressing falling living standards will be the key issue at the next general election. This renewed focus on issues that matter to ordinary working families is welcome, but politicians need to be looking not just at rising prices and growing debt, but how we secure fairer pay.

Increasing the share of national income paid in wages, and ensuring it is shared out more fairly would be the most significant step we could take to raising the living standards of working people and supporting an economic recovery.

Public spending cuts and privatisation have pushed us further into a precarious low-wage economy where even full time work cannot guarantee a living wage.

This new report from the New Economics Foundation is a welcome contribution to the debate – for the first time, getting beyond the political rhetoric to offer a more thorough and thoughtful analysis of the current state of play – and pay – in the economy.

It shows how public service employment plays a crucial role in the wider labour market and underlines the need to resist crude attempts to divide and rule between public and private sector employees.

Putting the focus on making work pay fairly for all would help us rebalance the economy, support working families and boost economic demand.

Dave Prentis
General Secretary, UNISON

Executive Summary

Britain is experiencing a growing problem of low and falling pay and precarisous employment conditions among ordinary workers. These issues cut across sectors including public services. More evidence reveals that reducing the value of wages for middle and lower income earners means greater economic and social fragility. Action to tackle these trends is therefore not only essential but increasingly unavoidable. This report proposes that nothing short of an inclusive set of policies capable of guiding the labour market is required; and that the public sector offers fertile ground for starting, and in some cases reinvigorating, a movement for progressive labour practices.

The interconnected problems of low-pay and constrained living standards in the UK are well-documented and becoming a feature of public and political discourse. Public service employees, along with many other workers in the economy, face an unprecedented squeeze on their living standards and are struggling to be heard in the tide towards budget cuts and labour market 'flexibility'.

The trend towards low and falling pay clearly presents challenges for individuals and their families. It also however presents a broader, sustained problem for society which will not be resolved by flickers of economic growth seen in recent economic indicators. Growing evidence of feedback loops through the economy mean that we have better knowledge of the extent to which depressed wages, lack of confidence and worsening inequality dampen the motors of economic activity and economic and fiscal stability which in turn generate further weaknesses in employment, pay and performance. And even if the current strategy for greater labour market flexibility and fiscal restraint did generate economic gains the social protections that are being lost to society risk storing up costs for the future.

There is a growing debate about the challenges of low and falling pay, and job insecurity. The debate has most recently recognised the phenomenon of zero-hour contracts, officially estimated at around 250,000 workers, but with others putting it much higher at up to one million.[1]

Research carried out by the New Economics Foundation for UNISON shows why and how the public sector can lead a shift to progressive employment practices for all public service workers and public sector supply chains. And there is also the prospect not only of benefiting around one million low paid public service employees, but catalysing a wider progressive labour market movement.

Historically public service employment has played a progressive role, with fairer pay distribution, solidaristic wage bargaining and a track record in progressing gender equality providing an important benchmark for the wider labour market. But now, benchmarking of pay to unregulated norms of wage-cutting in the worst parts of the private sector has embedded a race to the bottom for millions of workers, including in vital public services. As a result nothing less than a counter-cultural response is needed to raise the benchmark to a better standard.

Six key recommendations for public sector action flow from the research:

1. Active support at all levels of government to ensure the living wage is paid by employers across public service supply chains, directly benefiting 1 million public service workers today.

2. Government to lift the pay cap, which has resulted in pay in public services falling by more than £2000 a year on average in real terms since 2010.

3. Policy action by government to establish robust fair wage resolutions determining benchmarks for employment conditions across public service supply chains.

4. Active support by government for collective bargaining of pay and employment standards throughout public service organisations and businesses.

5. Action by policy-makers, commissioners and employers to scrap zero-hours contracts in key sectors such as social care.

6. Implementation of new indicators, such as mandatory reporting of top, middle and bottom pay by employers across public service supply chains.

Introduction

This report presents the findings of research for UNISON conducted by the New Economics Foundation over the spring and summer 2013. The research was guided by two objectives:

1. To evidence the need to tackle low pay and falling real pay in public services and the wider economy, and
2. To examine the case for the public sector to be a leader on exemplary standards of pay and conditions.

The study originated from an understanding that in the current climate public service workers are struggling to find a voice with which to speak out about the reality of the pay constraints and job insecurity that they face. We set out to provide evidence about the situation with regard to public sector and public service pay and to debunk popular, unsubstantiated myths which serve to split those in both public and private sectors who would gain from a new emphasis on social justice.

This report is written with the intention firstly to provide clarity on key facts and arguments about the state of and trends in pay, making them available to public service workers and others who are active on the issue of pay and public services; and secondly to demonstrate and bolster common cause among all those experiencing low or falling pay whether they are employed by the public or the private sector.

The report is set out in three parts:

Part 1 focuses on the current situation with regard to low pay and falling real incomes in the economy and public services in particular. We also shed light on some of the myths surrounding public sector pay that are helping to drive current policy approaches.

Part 2 sets out a summary of the macroeconomic and social implications of low pay and falling real pay in public services demonstrating the interdependence of public and private economic activity and how economic stability is compromised by holding down wages.

Part 3 presents our investigations into the critical role that the public sector can play as standard-setter for decent pay and exemplary labour market practices.

A note on terminology:

In this report we define the public services sector as comprising (1) the public sector including for example public hospitals and educational institutions, central government departments and local authorities, and (2) private sector companies and third sector organisations commissioned by public authorities to deliver public services paid for by taxpayers.

In part 3 of the report, we refer to the public sector in its broadest sense, including public sector employers and institutions but also the policy-making and legislative establishment of government.

Low and falling wages: A public/private reality

"Often the only difference between a public and private sector worker is the badge; both need a decent wage." **UNISON representative**

Key findings: Low pay

1. At least one in five workers in the UK economy earns low pay – too little to live on at £7.47 per hour or less, equivalent to £13,600 or less for someone working full-time.[2]
2. More than half of individuals, including children, living in poverty in the UK live in households where at least one adult is working.[3]
3. Low pay is a major problem in parts of public service. We estimate that one million public service workers are on low pay, including health and social care workers, school staff and local authority employees.
4. Growing numbers of public service employees are formally part of the private sector though paid for through taxes as outsourcing gathers pace. Evidence suggests that the shift from public to private can result in diminished pay and rights for workers with private sector discounting apparent for some occupations.
5. Low pay is being compounded in the public services by the blight of zero hours.

Key findings: Falling pay

1. Workers on low and middle incomes are experiencing the biggest decline in their living standards since reliable records began in the mid-nineteenth century.[4]
2. For the average worker wages have fallen by £1,300 every year since the Coalition Government took office.[5]
3. Whether employed by public sector organisations or private companies wage increases for ordinary workers have been on a declining path since the early years of this century.[6]
4. For those employed directly by the public sector, this general pattern is made worse by the Government's 5 year pay freeze and cap.[7] Recent figures suggest that those working in the public sector are an average of £2,073 a year worse off than in 2010.[8]

Overview of low pay

In the public service arena, as elsewhere in the economy, we have seen a trend to declining standards of pay and conditions for ordinary workers. The proportion of low-paid workers (defined as those on 60% of the median income for the economy as a whole) rose from around 12% of the workforce in the mid-1970s to 20% by the mid-1990s, where it has stayed. Meanwhile, the proportion of households which are poor despite having at least one working adult has been rising for a decade or more so that now in-work poverty outstrips poverty associated with worklessness.[9]

Our review of available data and literature reveals that in total low pay affects around 20% of workers: 27% of workers in the private sector (some 5 million individuals) and around 8.5% in the public sector (there is some inconsistency between published figures, but the total is more than 500,000 workers).[10] Just as the private sector comprises many different employers, so too does the public sector, and particularly noteworthy within the numbers is that low pay affects some 25% of local government employees (see Box A below).[11] These data indicate that while there may be a more prevalent problem of low pay in the private sector it is by no means an exclusively private sector phenomenon.

Box A: Low Pay in Local Government

Nearly half a million local government workers earn less than the living wage. This pattern is strongly associated with the profile of local government employees where over half work part-time and nine out of ten are women. Female workers and part-timers are groups which are at higher risk of experiencing low pay.

Cuts to terms and conditions in local government are hitting part-time workers the hardest. After the pay freeze part-time hourly earnings are now worth the same as they were ten years ago, with a quarter of part-timers in local government earning less than £6.63 per hour and half learning less than £8.01. Low paid part time local government workers usually need benefits and tax credits to keep their families out of poverty.

Trade union side of the NJC for Local Government Services: Englnd Wales and Northern Ireland, pay claim, 2014 - 15
Whittaker, M. and Hurrell, A (2013) *Low Pay Britain 2013*. London: Resolution Foundation

The largest group of low-paid workers in the private sector is that of sales and retail assistants with other low-wage groups including waiters and waitresses, bar staff and cashiers and check out operators. Meanwhile, a predominant category of low-paid workers within the public sector is that of school midday and crossing patrol occupations, which includes jobs such as school meals staff, lunchtime supervisors in schools and school crossing patrol staff. Care workers and home carers also form a sizeable proportion of those earning low wages in the private sector and this is discussed in more detail below.

Even if not officially on low wages, some key public sector workers appear in the bottom half of earners in the UK. This includes teaching assistants, administrative staff, nursing assistants and child-minders. These are roles that help set the groundwork for education, support children in the classroom, allow for public service to function and be responsive, and take care of the vulnerable and sick.[12]

Blurred lines between what is public and what is private

A review of the official data reveals that the same occupation can attract a lower rate of pay if a worker is privately employed than publicly employed. A prime example is the case of care workers and home carers. In the public sector a carer will typically earn between £9 and 11 per hour, but in the private sector the prevailing rate is much lower, at between £6.44 and £7.38, and therefore below living wage. This is suggestive of a substantial private sector discount. Nevertheless a straightforward distinction between public and private in the analysis does not suffice. Growing numbers of public service employees are formally part of the private sector as outsourcing deepens and extends to new areas but they are paid for by taxpayers through public sector contracts in fulfilment of public service duties. This shows the dual responsibility for low pay that makes it neither a wholly public or private issue but very much a combination of both.

Increased blurring between public and private means there are wider systemic implications of privates sector discounting of wages. As mentioned above the growing trend to outsourcing public service delivery from the public to the private sector means that an increasing number of public service workers are privately employed. Outsourcing of public service functions to private providers was estimated to encompass around 1 million jobs by 2008 and it has continued to grow since, although establishing an exact up to date figure is difficult.

The evidence suggests that the shift from public to private employment can result in diminished pay and employment rights as well as a prevalence of zero hour contracts, especially among care workers.[13] This partly reflects the fact that work that moves from the public to the private sector is also removed from a national system of pay bargaining with much less worker representation via unions.[14] In addition, research suggests that the competitive tendering process can have a depressing effect on public sector pay as in-house teams compete on price with private providers to retain service provision.[15]

We estimate that once you include all those on low pay delivering public services – whether in the private or public sector – there are roughly one million workers. This includes those working in social care and school midday assistants who are mainly women and could benefit substantially from an up-lift from the minimum to the living wage.

The big squeeze and falling real incomes

As well as low pay, concern has been building in recent years about the squeeze on middle-income earners. The Oxford University Dictionary defines the 'squeezed middle' – a term coined by Ed Miliband - as "the section of society regarded as particularly affected by inflation, wage freezes and cuts in public spending during a time of economic difficulty, consisting principally of those on low or middle incomes." In practice, the squeezed middle has come to mean those on median incomes or in decent jobs who are still struggling to cover basic costs.

The cost of living is important in understanding why median incomes no longer suffice but just as important are structural shifts in the labour market affecting the type of jobs available and how rewards are distributed. Those feeling the squeeze on their incomes would not see their situation improved purely from a decline in inflation. Sustained change will require policies to increase the wage share and plug the middle of the labour market (see Box B right).

Box B: the decline in wage share and the polarisation of jobs

Gross Domestic Product is the headline measure of benefits from economic activity. The two major components within this are compensation to employees (wages) and operating surplus (profits). Over the past 30 years the share of benefits received by workers in the form of wages has been falling. The wage share averaged 59% of Gross Domestic Product in the 1950s and 1960s and then peaked in the mid-1970s at 65.5%. From then it followed a gradually declining trend, reaching 53% by 2007. A temporary increase occurred in 2009 as the financial crisis hit business activity and profits but the share has since declined again to its 2007 level.

The wage share provides an overall picture, but added to the decline in the wage share is the fact that some groups of earners have done relatively well and some relatively badly as economic inequality has risen. This issue is discussed in more detail in Part 2 of this report. As a result the fall in the wage share has not been experienced by all workers, but has been almost entirely borne by middle and lower earners. Meanwhile wages for the top have raced away and some professional groups have also benefited.

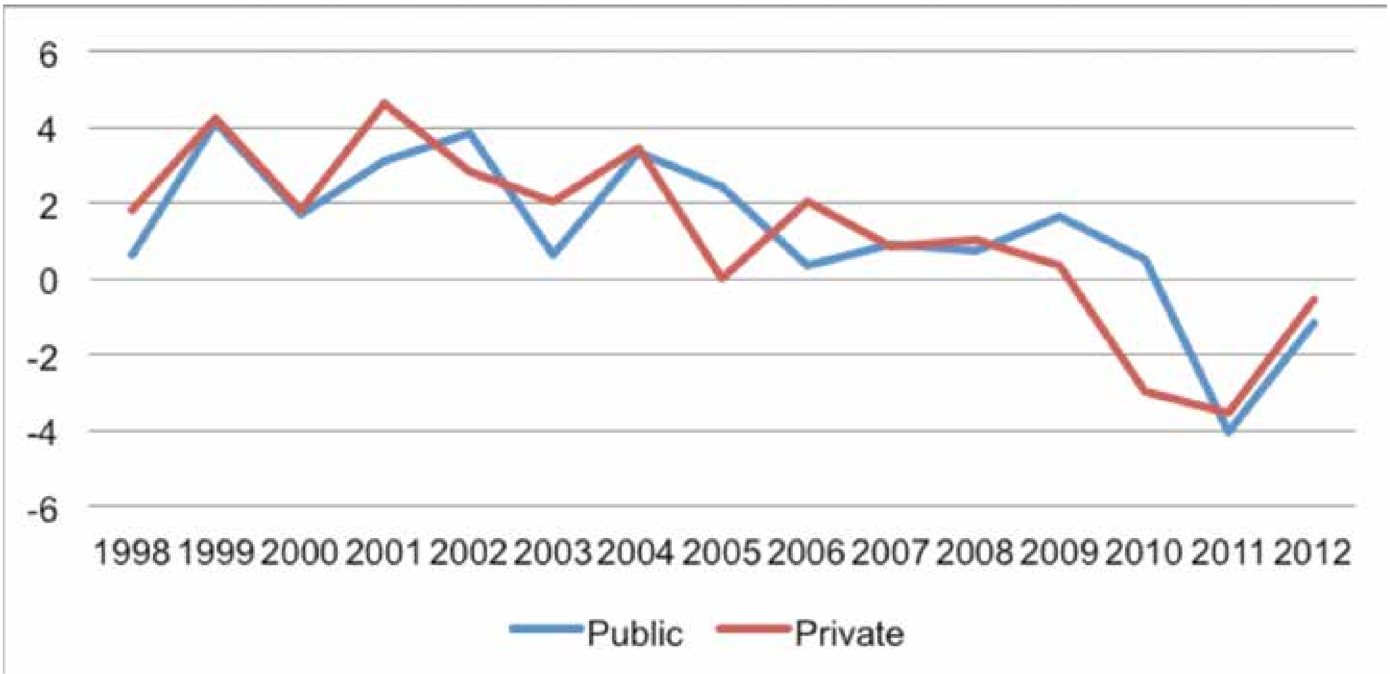
This polarisation of wages with stagnant middle incomes relates to the fact that since the 1980s it has become increasingly obvious that our labour market is looking more like an 'hour-glass' with growing numbers of jobs requiring few qualifications that pay very little and increasing numbers of highly-paid jobs for top graduates. The public sector itself has experienced considerable growth in professional occupations, but reduced numbers of middle rung posts and elementary and service occupations. This is partly because many of the lower-skilled functions have been out-sourced.

Sources: Reed, H. and Mohun-Himmelweit, J. (2012) *Where have all the wages gone?* London: TUC; Lansley, S, and Reed, H. (2013) *How to Boost the Wage Share.* London: TUC; Sissons, P. (2011) 1 London: Work Foundation

A combination of higher costs of living and reduced wage settlements mean that the real value of pay packets across the economy has fallen dramatically in recent years as a number of studies have shown.[16] A recent study by the Institute for Fiscal Studies found that wages have fallen by £1,300 on average per year since the Coalition Government took office.[17] And the public sector has been hard-hit by the sequence of a 2-year pay freeze (three years in local government) and then a 3-year pay cap. The effect of this 5-year plan of restraint is to reduce median and average gross pay in the public sector by a prospective 13% across the period.[18] To illustrate the impact of this, in 2013 low-paid staff in local government now find themselves £1,994 per year worse off in real terms than in 2010.[19]

Any notion that the public sector has been shielded from the squeeze on incomes or has benefited in the past from relatively generous pay settlements compared to the private sector is shown by the data not to be the case. The following chart shows years in which private sector wage growth exceeded that in the public sector and vice versa, but the average real rate of growth has been very similar for both across this 15 year period at 1.22% and 1.17% for public and private respectively. Looking at the 10 year period 1998-2007 prior to recession, private sector real wages grew more strongly at 2.34% on average per year, compared with 2.08% for the public sector. The fact that public sector wage growth remained positive in 2010 when private sector growth became negative has been attributed to the cyclical process in the timing of wage settlements in the public sector.

Figure 3: Real growth (%) in median hourly earnings: public & private sector 1998-2012



Source: Calculations using data from ONS (2013) *Patterns of Pay – Results from ASHE 1997 to 2012*

The public sector premium: a mythical concept for policy-making

The fallacy of relatively generous public sector pay deals discussed above joins with belief among certain policy-makers and media in an underlying concept of a public sector pay premium and thereby public sector inefficiency and waste. The idea that public sector employees have typically enjoyed pay privilege in contrast with private sector counterparts has provided an argument for cut-backs in jobs, pay and associated allowances, and for more outsourcing of public services to private sector firms.

The notion of a public sector pay premium has become commonplace in economics and in the public discourse. And yet, as we have described in previous work, this notion is at best misconceived, and at worst mischievous.[20] Recent modelling carried out by the Office for National Statistics provides more evidence that this is so.[21] It also makes clear that where pay does differ in the public sector it does so at the bottom end of the earnings distribution. The main beneficiaries are male and female low to medium wage earners working full-time, and there is a particularly strong effect for female part-time workers.[22]

These findings lend weight to the analysis that in reality what we are seeing in public services is a large discounting of the value of many core jobs as pay is benchmarked to private sector cost-cutting approaches. As we will see in the next section, as well as being unfair and damaging to individuals, we are storing up prolonged trouble for the economy if we do not tackle poor wages.

The implications of low and falling pay

"There is a danger when a general desire to reduce the size of the state translates into weak and non-ambitious economic policy. When that happens we are all losers." **Mariana Mazzucato** [23]

Key findings:

1. Decent wages for ordinary workers are at the core of a healthy economy.
2. Recent IMF research reveals that the impact of public spending on the rest of the economy, including through the pay-bill for public service workers, is stronger than previously thought via the multiplier effect. This means squeezing public service wages locks us into a more fragile economic future.[24]
3. At the same time, inequality in incomes and wealth has reached a historic high in the UK (as in other countries). Contributory factors are: increased numbers of workers on low wages, stagnating wages for middle earners, and incomes for top earners racing away from the rest. Burgeoning evidence reveals the danger to economic stability of such extreme inequality.[25]
4. Low pay has significant fiscal impacts – the cost of income support and tax credits alone runs into billions of pounds. Increasing the minimum wage to a living wage could have benefits for the Treasury, as well as for employees and employers.[26]
5. The social impacts of living on a low income are well-established – stress, anxiety, low self-esteem and damage to physical health are headline impacts. High inequality is also associated with more violent crime and reduced social mobility. The aggregation of all these effects incurs long-term social and fiscal costs.
6. We urgently have to look to policies that tackle low pay, falling real pay and inequality at root. Redistribution is a fragile mechanism. It is not sustainable to mop up after the fact; we need policies that will prevent low pay and inequalities arising in the first place.

The economics of decent pay

In this section, we explore three inter-related issues: Firstly, decent wages for ordinary workers are important, not just for fairness but for sustaining healthy economies; secondly, investing in public services, including through wages, is core to achieving economic and social stability because the public and private sectors are deeply inter-dependent; thirdly how wages are distributed across the workforce matters.

1 Wages as the backbone of the economy

More than a century ago the car manufacturer Henry Ford recognised the importance of paying workers a decent wage: "There is one rule for the industrialist and that is: Make the best quality goods possible at the lowest cost possible, paying the highest wages possible."

The income of businesses derives from potential combinations of export and domestic demand, with the latter in large part dependent upon the spending power of the population via decent wages. The ideal scenario for an individual firm might be that it pays its own workers relatively low wages in order to reduce its costs and gain competitive advantage, while other firms pay their workers well, helping to ensure healthy overall demand for its goods and services. This presents a paradox of self-interest however, since if there is a general trend to constrain pay then aggregate domestic demand suffers, meaning that one important mechanism for supporting business activity and the economy is compromised placing more reliance on export demand.

2 *The economic imperative of public spending*

Pay in public services, together with public spending more generally, is an important part of this picture. There is invidious use of language in parts of the press and policy-making circles which simplistically casts 'public as bad' and 'private as good'. But public spending, including through the pay-bill for public service workers impacts decisively on private sector activity, employment and wages especially so in some regions where public service employment accounts for a relatively high share of employment.

The fiscal multiplier quantifies the effect that public sector spending has. Conventional wisdom throughout the past several decades is that the fiscal multiplier is low, so that £1 of public spending is expected to yield less than £1 in benefits from consequent private sector economic activity. The standard assumption used by the IMF has been that the fiscal multiplier has a value of 0.5, i.e. £1 of public spending generates £0.5 of wealth. Conversely, this implies that a £1 reduction in public spending would only result in a loss of £0.5 in economic activity. This has served as a justifiable basis for reducing public sector spending via austerity in a number of countries.

This economic "truth" has been contested by numerous economic scholars.[27] But in fact the final blow to this conventional narrative was surprisingly provided by the IMF itself. Re-estimates put the fiscal multiplier during a macro-economic shock at between 0.9 and 1.7. [28]

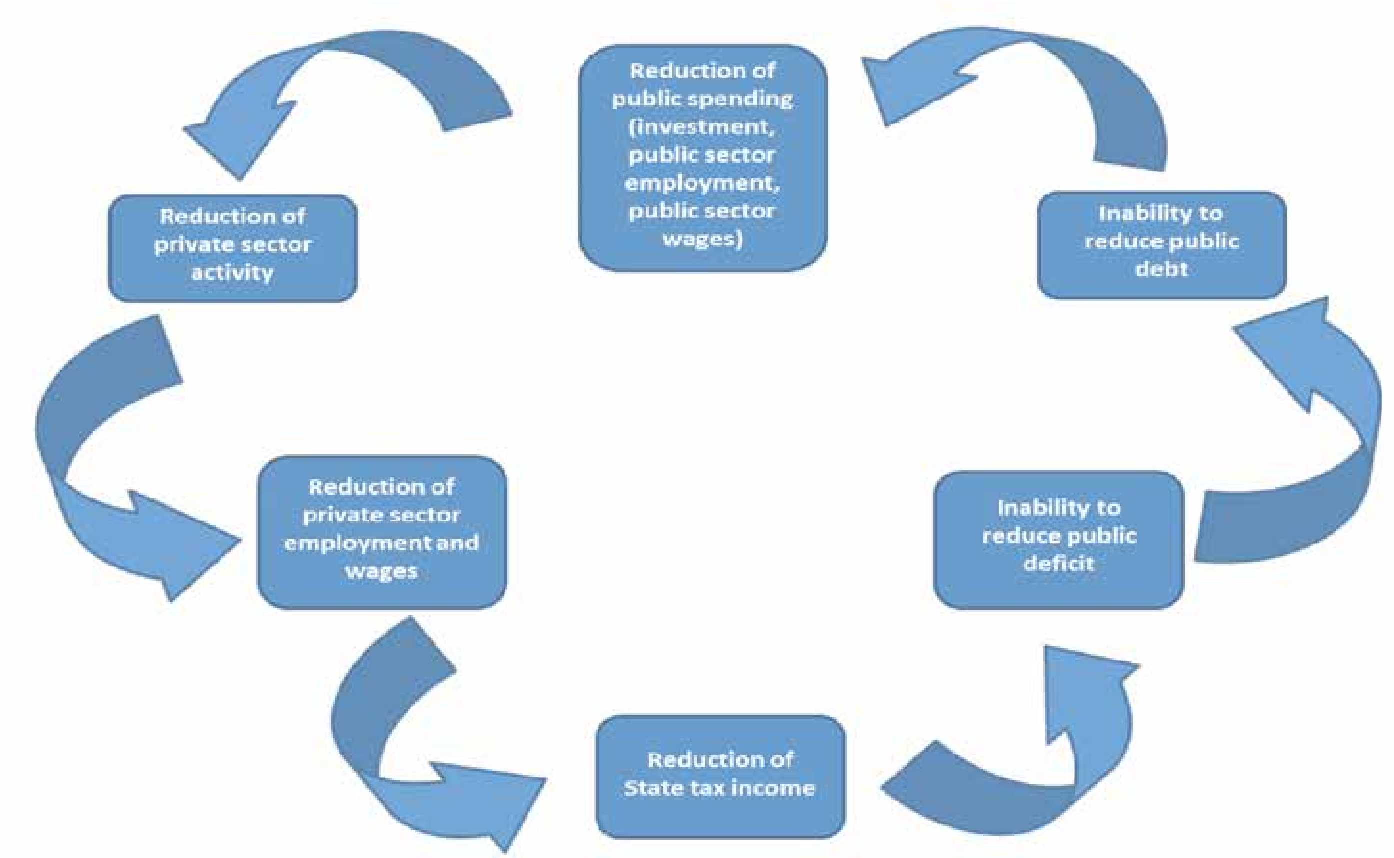
A further study has found that the fiscal multiplier is probably at the higher end at around 1.6. [29] According to this new understanding, for each £1 reduction of public spending, either in the form of reduced investment, benefits, public sector wages or public sector employment levels, £1.60 of private sector economic activity is lost. As an example of what this can mean for the economy, work carried out by nef for the TUC last year estimated the multiplier effects of reduced public sector pay as a result of localisation of wage-setting and found that the loss for the national economy could potentially amount to between £3 billion and £10 billion per year.[30]

Clearly then, public spending has a vital role to play in helping to sustain aggregate demand in the economy. And the importance of this role is amplified during a downturn when the private sector is in retrenchment. If public spending is cut simultaneously in order to try to reduce public borrowing then this takes even more spending out of the economy, risking more prolonged malaise. This negative cycle is shown in the diagram overleaf. Nevertheless, this has been the strategy pursued by the Coalition Government.

An upturn in economic indicators recently has been hailed by ministers as evidence that their plan is working, but the signs of recovery are weak. Underlying indicators on private debt, investment, and house prices suggest a return to a pre-crisis economic model based on debt-fuelled consumer spending and a housing bubble. Meanwhile job creation is skewed towards London and across the economy 4 out of the 5 jobs created since recession are low paid. Ordinary people are certainly not experiencing a change in their fortunes, and if wages continue to stagnate then they are unlikely to.

Especially at a time of economic weakness when aggregate domestic demand is sluggish because of a combination of unemployment, pay restraint and loss of confidence recovery depends on rising exports – profit in other words from demand abroad. But this demand depends on the health of other economies. In recent times weak demand in the UK's major trade partners in the EU has reduced the opportunities for an export-led recovery. A recovery then only becomes possible from enhancing internal demand. This cannot be achieved by continued restraint on wages for the bulk of the workforce.

Figure 5: The nexus between reduced public spending & private sector performance



3 *The economic consequences of high inequality*

As explained above the *level* of wages and disposable incomes is a fundamental consideration for macro-economic performance. Alongside it, there is a further crucial consideration which relates to the *distribution* of income and wealth.

> *A growing number of economists – in both the US and the UK – have come to question the conventional view, arguing that getting the distribution question right is critical to both growth and economic harmony.*[31]

Over the past 30 years, top earners have pulled away from the rest of the workforce, absorbing a higher share of total wages even as the wage share of growing economic prosperity has fallen.[32] The reality is that workers face a double-bind: subject to a falling share of a smaller pie.

The falling wage share experienced across OECD countries has been blamed for the protracted levels of low demand in the economy since the onset of the recession that in turn is causing further economic stagnation. ONS survey data found that household spending declined by 5 per cent in real terms between 2006 and 2011. The multiplier discussion above reveals why such a reduction in spending can have significant effects on the domestic economy. But, particularly since the onset of the financial crisis, a growing body of literature has investigated the inter-linkages between economic inequality and macro-economic performance.[33] The investigation of causal links between inequality and financial instability has a historical background in the fact that both the 1929 and the 2008 financial crashes (and subsequent recessions/stagnations) were preceded by a vast surge in inequalities of wealth and pay between the top deciles of the population and the rest (notably the squeeze of the middle class).

Apart from the human/social implications of high inequality, which we discuss in the next section, inequality directly impacts on the economy through the role of debt. Holding down wages for low and middle income earners, while allowing wages at the top to spiral ever higher, carries the risk of increased indebtedness as people strive to keep up with paying the bills and providing for their needs. And there is a ready supply of lending to households. As wages are held down and more economic prosperity is taken as corporate and shareholder profit, the concentration of income and wealth looks for an investment outlet. This provides an incentive to banks to "over-lend" to those parts of the population which, with lower earnings, need more credit. The problem is that the economic edifice becomes vulnerable. The seeds of the financial crash in 2007/8 lay in the unaffordable mortgage debts of ordinary households.

Social impacts of inadequate pay and inequality

The personal and societal impacts of low incomes on a large number of well-being, health and educational outcomes are being increasingly recognised.[34] Studies have consistently found that living on a low income has implications for levels of stress and anxiety, shame and stigma, physical health, family and personal relationships and social isolation.[35, 36] Children growing up in households with low incomes are not only more prone to the above, but in addition are subject to the longer term consequences of not fulfilling their educational potential and difficulties in future relationships and family formation.[37] More recently the idea that *a* job is better than no job has been questioned. Studies have found that a job that pays you a low wage and offers little progression can be as detrimental to well-being as having no job at all.[38]

Our own qualitative interviews revealed the depth of the personal impacts of life on low incomes. To gain an understanding of the human costs for those on low pay we spoke to two care workers and two hospital workers (one cleaner and one housekeeper). While this is a small sample what we heard echoed much of what has been documented in more comprehensive studies.[39]

The emotional effects were evident, especially because interviewees, like many people, associated their pay with the value ascribed to them by employers and society.

> *"I get very disheartened. I've been doing same job for years and have no respect. I feel quite worthless. I do ask myself why am I doing this?"*

While some find themselves working too few hours others work extra hours or two jobs to gain income. Everyday lives are made difficult because of the inability to meet basic costs. This was especially the case for one interviewee who was on a zero hour contract.

> *"One month I got paid under £300 in total. That's not even a £100 a week. I had to put off buying things like fabric softener! I know this sound ridiculous but I don't take sugar in my tea because of the zero hour contract. For the price of sugar I realised I could get the soap. You need to give up things to get through."*

It is not hard to see that the accumulation of stress for those on lower incomes may have broader societal impacts: the costs to the NHS of stress-related illnesses for example, debt advice or the productivity loss of those children growing up in poverty not reaching their potential. For example, it has been estimated that the additional primary healthcare expenditure that occurs as a direct result of children growing up in poverty is approximately £500 million.[40] The Boston Consulting Group found that low social mobility costs the UK £140 billion a year.[41] This comes on top of the £13.8bn paid out in income support and tax credits, as well as the housing assistance in the form of housing benefits and funding schemes to help people to get on the property ladder.

High levels of inequality have been linked more widely to status anxiety and associated stress-related illness, to violent crime, lower relative levels of community cohesion and lower levels of social mobility[42] – all of which again incur both social and economic costs. Discussions with our interviewees reveal both in-work tensions that arise from hierarchies within the work place as well as broader dissatisfaction and anger.

> *"They say they value us in the hospital but in reality we're just looked down on – seen as just the cleaners. It's the little things – like the nurses will bring in cake and no one will ask us if we want any. My friend went to her ward Christmas party and one of the senior Sisters said "what are the domestics doing here? Who invited them?"*

> *"The rich get to put their money somewhere else – in tax havens – it's very unfair when so many millionaires in cabinet they don't know what it's like to go without."*

Fiscal impacts

The highly respected Institute for Fiscal Studies (IFS) has calculated that for every pound spent paying the living wage, the Treasury saves 50p through not needing to pay tax credits and benefits.[43] Meanwhile, a Resolution Foundation study found that implementing the living wage across the economy could produce a gross benefit of £3.6 billion for the public purse in the form of additional tax receipts, national insurance contributions and avoided spending on various forms of benefits and tax credits.

Accounting for the additional costs of paying higher wages to public service workers estimated at £1.1 billion the Resolution Foundation analysis suggests a net benefit to the exchequer of some £2.5 billion. Although this does not take account of the indirect costs (higher taxation required to fund a living wage across public services and risks to employment levels as a result of firms having to pay higher wages) and benefits (through income and employment multipliers on private sector activity) there appears to be a strong fiscal case for a shift from a minimum wage to a living wage. Further sophisticated modelling of the indirect costs and benefits is needed to build up a more complete picture of the net position. However, when the full economic, social and fiscal costs of constrained pay are considered together, it is difficult to see anything other than considerable short and medium term costs to the state from the status quo.

Prevention better than cure

Although there is as yet no coherent political course of action laid out on tackling low pay and inequality, there is increased attention being paid to the issues. For example, Conservative Mayor Boris Johnson is a key supporter of the London Living Wage and Labour Leader Ed Miliband has called the living wage 'an idea whose time has come.'

Ed Miliband has also pointed to the need to 'pre-distribute' wealth and incomes, ie: avoid market inequalities and unaffordable incomes right at the start, rather than relying on redistribution after the fact to even things out and make up shortfalls in pay. According to the leading American academic to which this idea is associated, Professor Jacob Hacker, this is really about making 'markets work for the middle class'. This is to be achieved through getting the macro economy right by financial reform and ending austerity, improving and investing in public services and finally strengthening worker rights.[44] The TUC has described the approach more narrowly as 'the attempt to reduce the gross wage gap before the application of taxes and benefits.'[45] Others, including **nef**, have described it as addressing the root causes of growing inequality rather than mopping up after the damage is done.[46]

As nef conceives it a predistributive approach would involve a number of policies that seek to address inequality at root. Similar to Professor Hacker's approach it would not be any one policy alone that would be advocated, rather a set of policies generating a virtuous cycle. At the heart of these policies is a strong and well-paid public sector and an active state. Key polices would include:

- Attempts to tackle pay disparities: This would include ensuring the public sector paid a living wage to employees both in-house and through those services out-sourced. A wage ratio within companies would be the most direct way to address bloated executive pay at the top while leaving more for everyone else within a firm but is unlikely in the short term. Instead ensuring worker representation on remuneration committees should be required to mitigate excessive rewards.

- Increasing the wage share and workforce representation: In addition to direct policies to tackle pay predistribution, the workforce should be empowered so that changes are sustained and led from the ground up. This would mean encouraging union membership and collective bargaining through the re-establishment of wage councils.

- Addressing living costs through house building and the introduction of a free and universal high-quality childcare system: Housing and childcare costs are two of the most burdensome costs on households. The lack of affordable housing is one of the biggest crises facing the UK – a large house-building programme would create good jobs as well as ameliorate the situation. Childcare costs are impeding the ability for women to work and a universal system would have the added benefit of providing an equal start for every child.

Strengthening collective bargaining through unions and wage councils is of particular interest as a number of studies have shown that de-unionisation has been the key driver of growing inequality across OECD countries.[47]

Having looked at the economic imperative for action on low and falling pay the next section explores the potential for action through the public sector.

Taking action: raising the benchmark

"I believe very strongly in the public sector: as employer – indeed, as a good employer – as a provider in society and as a key element in social justice." **Guy Ryder, Director-General, ILO**[48]

Key findings:

1. The concept of the public sector as a fair and decent employer is strong and enduring.[49]
2. This is built on an architecture of shared responsibility between government, employers, and workers' representatives, hard wiring inclusivity and collective bargaining into the system.[50]
3. Over time this strong institutional framework has produced real gains for fair pay and equalities across public service supply chains but these gains have come under attack through repeal of regulatory protections, outsourcing on price, and an ideological stance on benchmarking labour market standards to the free-market.
4. Employee engagement is central to an improvement culture and with unionisation and collective bargaining still strong in the public sector there are structures in place for building progressive change out from public services to other parts of the economy via commissioning standards and demonstration effects.[51]
5. This has to be underpinned by setting decent benchmarks for wages, standards of employment, and equality protections via robust regulatory arrangements and inclusive labour market legislation.

Public services – strong ground for action

The previous section set out the economic, fiscal, personal and social ramifications of the squeeze on incomes for so many workers. From an understanding of why decent wages are an economic as well as a personal and social imperative we need to consider the best way to take action on low and falling pay. There is indeed a growing recognition of this in progressive policy-making circles.[52] But we need to build on support for individual initiatives like the living wage campaign with a clear set of inclusive policies to guide the labour market as a whole. We propose that the public sector, through its direct employment relations, as commissioner of public services from other providers, and with its wider civic leadership role, offers a frontline for enacting such policies and implementing best practice without delay.

During our research we reviewed the frameworks, experiences, and examples of progressive practice that demonstrate why we can and should look to the public services sector as a key place for embedding exemplary employment practice. To be clear, this is certainly not about setting the public sector apart however; nor is limiting progressive ambition to the public arena an inspiring prospect when the private sector accounts for 4 in 5 of low-paid workers and much greater extremes of wage dispersion.[53] Instead, the point about looking to the public sector as leader is about using the direct and indirect relationships between public and private institutions to level up for the common good. This represents a challenge to the prevailing Government preference for benchmarking public to private, and calls for a direct reversal of influence in the other direction.

Direct, high-quality public sector employment has been found to offer key strategic advantages to local and national economies in at least three ways. Firstly, it provides a core of stable, secure and fairly remunerated jobs with consequences via the multiplier for the wider economy. Secondly, it contributes to developing a well-skilled and responsive workforce. And thirdly high standards of employment conditions and commissioning practice help benchmark and regulate local labour markets, including by minimising exploitation through low wages and casualisation of workers, and by setting a benchmark in terms of equal opportunities.[54, 55]

As a starting point, and as highlighted in our conversations with experts for this research, we need to acknowledge that in reality public sector employer and commissioning performance is mixed. In the first place the public sector is part of the low-pay problem with 8.5% of its own employees, 25% in local government, receiving pay below the low-wage benchmark. In addition, awarding public service contracts to private providers largely on the basis of price competitiveness carries a high risk of public service workers being paid below living wage.

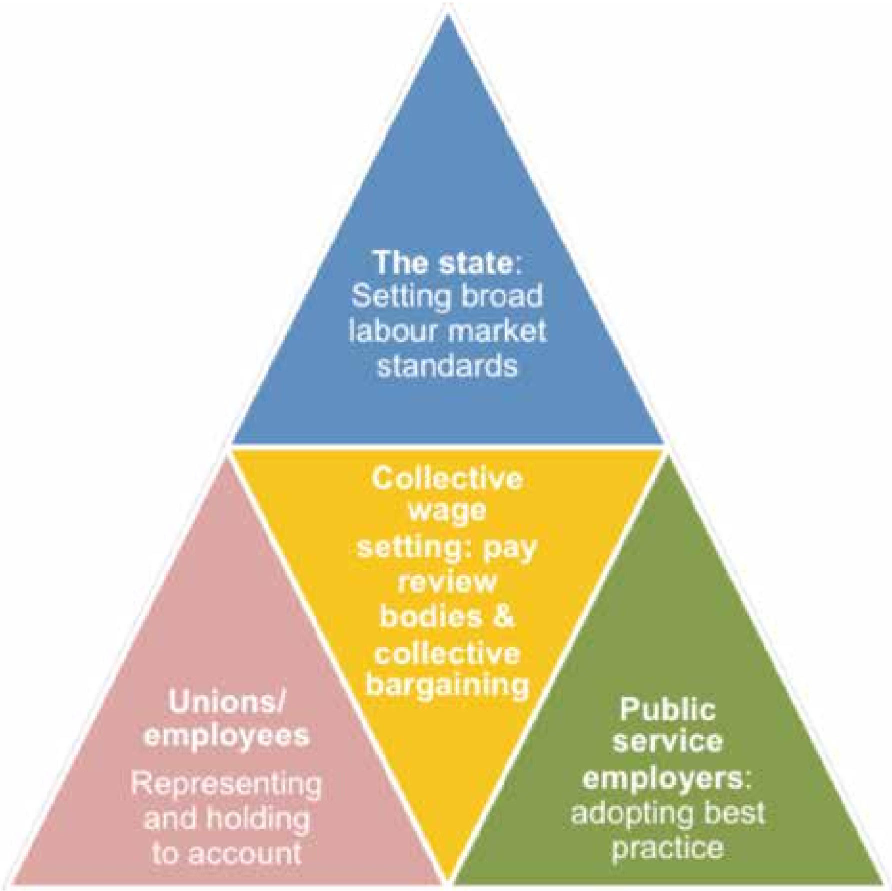
Yet the concept of the public sector as exemplary employer remains strong. And a recent study across five countries in Europe describes how public sector employment practices can be expected to have positive implications for wider labour market practices; albeit that this role has been challenged and contested in recent years as pressure has grown for the public sector to emulate private sector practices.[56]

The institutional framework of public sector employment

Over time, public employment has been designed and characterised by the institutional structures to allow inclusive industrial relations. There is a body of evidence which points to the importance of an institutional approach that both guides and constrains employers' choices and the relationship between employers and employees for shaping the wage structure of the economy and eliminating low pay.[57, 58] Strong institutional arrangements sit behind public sector achievements on progressive practices for fair pay, equal opportunities and due process.

The institutional framework of the public sector balances influence and co-responsibility between government, employers, and unions. This is depicted in the graphic below, which also shows the central role of wage-setting mechanisms including collective bargaining.

Figure 7: Tripartite involvement in standard-setting for public sector employment



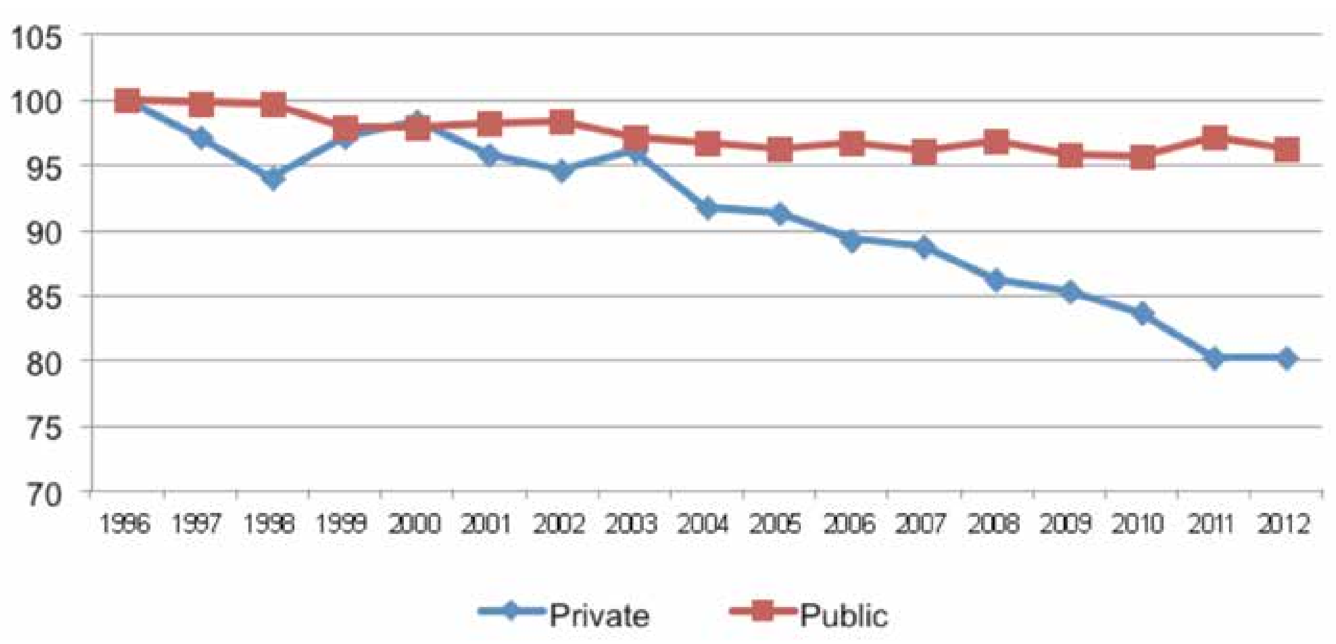
The fact that an inclusive structure has been preserved more successfully in the public sector means it keeps alive a strong model of employee representation for influencing the future direction of the labour market. This has been found to have important pay and non-pay effects. Pay data reveals a wage premium for unionised workers. This has been declining over time but studies have noted that unions continue to have an important effect on compressing pay differentials.[59] Non-pay benefits are revealed through for example higher training rates in unionised workplaces. [60]

Unionisation and collective bargaining have certainly been better preserved in the public sector than the private sector where these features have been steeply eroded in the past several decades.

In 2012 trade union presence in the workplace was nearly three times as high for public sector employees as for those in the private sector, at 86.4% and 28.5% respectively. Compared with 1996 trade union presence had fallen by 3.7% in the public sector but by 19.7% in the private sector.[61] Meanwhile, the gap between public and private sectors in respect of collective bargaining is even greater. In 2012, 63.7% of public sector workers were covered by collective bargaining versus only 16% in the private sector. Since 1996, these figures represented a fall in collective bargaining coverage of 14.4% and 31.0% respectively.[62]

The following chart illustrates the comparative fall in levels of unionisation.

Figure 8: Trade unions present in the workplace



Source: BIS (2013) Trade Union Membership 2012. Data indexed to 1996 and therefore not directly comparable to actual rates of trade union presence.

A summary of the critical importance of employee voice and collective bargaining is provided by Coats (2013):[63]

> *Bargaining power matters: it affects both the initial distribution of incomes and the day-to-day experience of people at work.*

The MacLeod review has been cited as highlighting the importance of employee engagement to the success of organisations throughout the UK.[64] We heard in interviews for this research that contracting companies tend to be supportive of strong employee engagement, and collective approaches in order to ensure good industrial relations and avoid a race to the bottom. We heard that these companies are concerned that without a good framework for industrial relations they would quickly be competing on price alone. This appears to recognise that poor standards affecting staff motivation and service quality will impact on companies' ability to sustain market share. Interestingly, firms recognise their own need for external impetus or imposition of collective industrial relations given the problem of free-riding which would undermine a self-regulated approach. This relates to the theoretical point whereby a firm might wish to hold down its own costs by reducing salaries and pay-bill, but will want other firms to pay their workers well in order to sustain demand for its products.

Studies have described a high road/ low road approach in different economies. The evidence suggests that a progressive labour market agenda involving an institutional framework comprising inclusive industrial relations, broad labour market standards such as a decent level of minimum wage, and protections for all those of working age do not result in a straightforward loss of employment or constraint on business. [65] Rather it impacts on the type of strategies that business and employers generally pursue.[66]

Public sector focus on fair pay

Evidence suggests that benchmarking pay to the public sector would embed a stronger trend towards fairness. Over time, the achievement of fair pay has been a guiding objective both within public sector organisations and through their relationships with private sector suppliers and providers. Three particular examples demonstrate how decent and fair pay have been achieved by the public sector in different ways: through institutional arrangements for pay bargaining, through policy-making, and through direct action.

Pay bargaining

As discussed in Part 2 of this report wage compression has an important part to play in securing economic stability. Institutional structures have played an important role in ensuring a more egalitarian distribution of incomes in the public sector, especially holding back excessive pay at the top.[67] Looking at different countries reveals that overall it is the more solidaristic wage bargaining process that tends to raise wages at the bottom and lower them at the top as compared to the market wages.[68]

As shown in the diagram below, not only is the difference between minimum and maximum pay narrower in the public sector, with both a higher floor and a lower ceiling, but the number of workers is more evenly spread across the distribution than is the case for the private sector. In the private sector the majority of workers earn below average wages, with many fewer people towards the top of the distribution on much higher wages.[69]

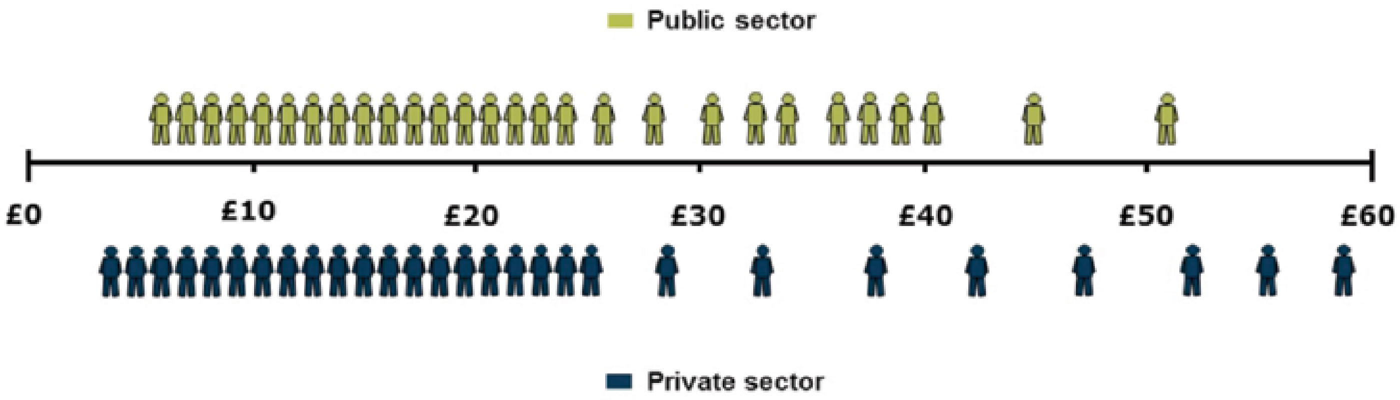


Figure 11: Pay distribution in the public and private sectors

Source: ONS: Public and private sector pay differences, November 2012. http://www.youtube.com/watch?v=NUdqZoefh50&hd=1

Agenda for Change – Modernising the NHS Pay System is an interesting case study of pay bargaining because its design and agreement was highly inclusive and because its underlying premise was to establish a coherent framework for a large and diverse staff body. It involved negotiations with multiple stakeholders, including 17 trade unions, employers and professional associations and it replaced 10 separate agreements for different occupations within the health service. In its evidence, the Public Accounts Committee highlighted how the development and implementation in partnership with the NHS trade unions involved constructive relationships between staff representatives and managers in NHS Trusts.[70]

Implementation has not been without challenge and criticism: particularly in terms of non-implementation of certain elements of the scheme and a lack of embedded monitoring and evaluation. However, there is overall praise for the fairness that the scheme has brought to pay and conditions and productivity across the health service. As well as lifting the wages of the lowest paid workers, pay and conditions were harmonised across the different occupational groups as job roles were clarified. This contributed to an important sense of equal pay for equal work which was also intended to enhance the mobility of workers across posts.

"There is a widespread view in the Department and amongst NHS Employers and other commentators that Agenda for Change has made it easier to show that NHS pay is fair and equitable.[71]

Fair wages policies

Fair wages policies have been used to exert public policy influence over private sector pay practices since the 19th century,[72] reflecting the importance of the role of policy-makers in labour market mechanisms. Very few are currently in practice as shown in the table at Annex 1. It is important to note that establishment of the minimum wage in 1999 enshrined an important principle which has endured, even if the financial value of the minimum wage has not. However, the Fair Wage Resolutions, application of international conventions, and Wage Councils have been lost. Together these set terms of pay and conditions for millions of workers, including minimum pay rates for industrial sectors and for public service contracting arrangements, as well as ensuring collaboration between employers and employees.

Direct action - support for the living wage

Adoption of the living wage is an example of how fair pay can be achieved at a local level. Early successes for the Living Wage campaign were with public sector institutions in healthcare - St Bartholomew's Hospital and Great Ormond Street Hospital. And in 2005 London Mayor, Ken Livingstone adopted the living wage at the Greater London Authority. Since then every mayoral candidate has included the living wage in their manifesto.

Of the 400 councils in England and Wales 82 are already or are committed to becoming Living Wage employers, while in Scotland all 32 of the local authorities pay their staff a minimum of the living wage.[73] Meanwhile, estimates are that in London, of the 14,367 people impacted by the London Living Wage, 10,129 were public sector workers.[74]

An example such as the London Borough of Islington, which became the first Living Wage council in March 2012, demonstrates the unique position that the public sector is in in leading progressive change on a living wage. Islington's approach was to hard-wire the living wage into its commissioning strategy – negotiating assertively and insisting on transparency. The success of Islington's approach can be evidenced as follows:[75]

- All of Islington Council's own workers now receive at least the living wage. This benefited about 100 staff who were previously receiving a lower rate of pay.

- 92% of Islington's contractors now also pay at least the living wage benefiting more than 500 contracted staff, including cleaners, security guards, school caterers and ground staff, many of whom are BME women.

- Islington achieved these living wage contracts at no extra cost to the council and has worked hard to ensure that companies are not meeting the living wage requirements by reducing staff numbers or hours.

- The remaining 8% of contracts are for Social Care services which have proved more difficult to shift, but from March 2014 when the contracts are due for renewal Islington's plan is to ensure these contracts adopt a living wage. Progress for home carers alone would raise around 500 workers to living wage earnings.

In addition to the direct influence that the Council can exert, Islington has taken on a civic leadership role and has successfully convinced other employers in the Borough to pay their workers the living wage. This includes other public sector employers, employers in the voluntary and community sector and private sectors firms.[76]

Public sector focus on equal opportunities

The record of the public sector in terms of progressing equal opportunities stands out in comparison with the private sector. But conversely in the current climate there is a real risk that austerity and deregulation will reverse gains in equity in pay and employment and that levelling down public sector pay in line with the private sector will import more discriminatory pay practices. Gains in terms of equal opportunities have not just been secured on a gender basis, although this is where the evidence is most stark in comparing public and private employment provisions.

Grimshaw and colleagues[77] note that in the UK the public sector has played a highly significant role in leading on and modelling reform of pay and employment conditions for gender equality. This has included tackling pay discrimination; providing decent pensions; providing access to high quality jobs for women; offering flexible working patterns including part-time and job share opportunities; ensuring better paid leave entitlements compared to the private sector including additional maternity pay; and establishing duties on public bodies to report on progress towards equal opportunities advancements.

The policy landscape has been a critical factor in the progressiveness of the public sector. Since 2007 all public employers have had a duty to promote gender equality. And the 2010 Equality Act expanded on this by imposing a single duty on public sector employers to eliminate all forms of discrimination and harassment. Equally, trade unions have played a pivotal role in campaigning, taking direct action on equal pay claims, and driving the development of single pay- scales to eliminate job-grading bias and systems of allowances in favour of male occupations and workers.

Looking at public-private pay differences by gender reveals important results. It is normal practice to compare pay across sectors by grouping, eg: comparing female earnings in the public sector with female earnings in the private sector, but this obscures the in-built discrimination and reveals an apparent premium for female public sector workers of 29% on average. However, if female earnings in both public and private sectors are compared with male earnings (full and part-time male earnings average) it makes the extent of discrimination clear. On this basis, women working in the public sector full-time are at par, but wages for their part-time equivalents are lower by 18%. The situation is much worse though for women working part-time in the private sector, with a discount of 43% on male earnings. The implications of benchmarking wages to the private sector then become very stark and provide a sound basis instead for benchmarking to the public sector.

> *Policies to reduce public-private wage gaps presume that wages in the private sector provide an appropriate benchmark but this approach ignores the evidence of continuing wage discrimination against women… If pay discrimination prevails in the private sector, then higher pay in the public sector may quite reasonably be interpreted as the effect of not applying a discrimination discount rather than as 'overpayment'.*[79]

Assessing the risks to public services

In the current context it is not sufficient to describe how benchmarking wages to public sector standards can help tackle low and falling pay. It is essential to urgently address ideological criticisms of the public sector which underpin cost-cutting and threaten the value of public provision.

> *A great deal is at stake in the policies to reduce the role of the public sector as an employment standards setter.*

A recent comparative study of the process of public sector reform across Europe summarises the changes taking place in the UK as being at the high end of both *structural reforms*, such as management restructuring and the shift to outsourcing, and *quantitative adjustments*, including cuts or freezes in public expenditure, wages and employment. Despite the budgetary, economic, political (and possibly demographic) rationale for this attempt to "do more or better with less", the study highlights the potential risk of actually ending up with "less with less" or even "less with more" because of the long-term social and economic costs of deep reforms which could have significant public finance implications.[80]

The very real costs of the current approach in the UK, which does involve fragmentation, reduced solidarity, and less focus on preventative services, need to be understood and weighed against evidence for the expected benefits of reform. One important aspect of this concerns quality of service for which staff motivation, recruitment and retention are relevant indicators. The same study referred to above found that pay cuts and reduced opportunities for progression and career prospects for staff had already affected the ability of the public sector in the UK (and other countries) to attract and retain high-performing staff.[81]

More broadly across public services, while some staff, typically more highly skilled workers, may benefit in pay terms from a shift to private sector employment, swathes of lower skilled public service workers are seeing their pay and conditions eroded. This is a major contributing factor to the problem of low pay in the economy with all the implications that are discussed in Part 2 of this report. As evidence on the living wage demonstrates, action to lift pay from the bottom is well understood to have real benefits for employees, employers and the quality of services, but currently these benefits are not being realised in key parts of our public services.

Conclusion

There's a perception that best practice costs more; we need to shout louder about the value it creates

UNISON representative

Public services are in the midst of transformation as funding cuts bite and outsourcing to private providers gathers pace. In the new landscape of provision and delivery the challenge is to ensure that every public service worker regardless of sector has their work and their value recognised through fair pay and decent working conditions. This means an end to low-wage work – ultimately not just in public services but across the economy - the returns from which are too little to live on, so that work really does pay. And it means an end to the unfair squeeze on living standards for those around the mid-point of the earnings distribution from a falling wage share and a skewed distribution of earnings in favour of the top.

There are vital lessons for bringing positive change about from the institutional architecture of industrial relations that have characterised the public sector, and some parts of the private sector, in the UK. This means:

1. strong employee engagement, including over time through an expanded union base,

2. positive collaboration between worker representatives and groups of employers involving collective bargaining to derive fair apportionment of prosperity,

3. a committed political approach to inclusive labour markets where meaningful benchmarks for wage, employment and equality protections are achieved through robust regulatory arrangements and labour laws.

Evidence indicates that this vital architecture of institutions, also termed instruments of predistribution, has been and continues to be eroded as part of the trend to deregulation and increasing flexibility of the labour market.[82] For progressive activists the deep systemic shifts that are locking people into low pay and falling living standards require nothing less than a strong counter-cultural movement built on the principle of the dignity of work, underpinned by an understanding of the common economic and social good of decent and fairly remunerated jobs, and supported by practical action and advocacy.

Recommendations

Building on the research carried out for this report, we make the following recommendations for policy-makers and public service employers:

For policy-makers to:

- Lift over 1 million low-paid public service workers to a living wage by:
  - **Putting in place a requirement for all central government departments to become Living Wage employers within as short a time frame as possible**
  - **Positively supporting all councils to become Living Wage Councils by taking account at a national level of affordability issues and other barriers**
- Government to lift the pay cap, which has resulted in pay in public services falling by more than £2000 since 2010
- Marshal strong political arguments for the economic imperative of decent pay
- Take policy action on low pay through increasing the national minimum wage, initially restoring the value lost during the period of below inflation increases
- Re-establish a robust Fair Wage Resolution to determine benchmarks for employment terms across public service supply chains
- Re-ratify ILO Convention 94 which permits pay clauses in public contracts
- Actively support collective bargaining of pay and employment standards throughout public service organisations and businesses
- Headline new nationally reported indicators, such as mandatory reporting of top, middle and bottom pay by employers across public service supply chains
- Address key causes of the living costs squeeze by developing clear commitment to tackling housing costs and instituting universal childcare provision

For public sector employers to:

- Eradicate low pay for directly employed staff
- Hard-wire fair pay into commissioning strategies in order to negotiate confidently for decent terms of employment for all contracted staff
- Ensure that cost-led procurement is not driving low pay and to transparently evidence where this is occurring
- Adopt an overt civic leadership role to advance best practice through supply chains and across local economies
- Scrap zero hours contracts for lower-wage workers

For public service employers to:

- Eradicate low pay for staff across the board
- Recognise trade unions and engage constructively with them
- Actively engage with commissioning bodies, unions, employer associations and worker representatives/councils to build a collective approach to employment practice
- Scrap zero hours for lower-wage workers

Annex 1: Fair Wage Policies

Policy/ institution	Current?	Key features
Fair Wage Resolutions	No	From 1891 until they were abolished in 1983 Fair Wage Resolutions helped establish wage floors and decent working conditions for large sections of the workforce. They required all government departments to procure goods and services only from businesses that adopted the prevailing wage rate in a particular industry.[83] The resolutions also explicitly promoted the use of collective bargaining and the rights of workers to trade union representation.
ILO Convention No. 94	No	The UK's Fair Wages Resolution was used by the ILO in 1949 as the basis for ILO Convention No. 94 which remains a common standard for employment of public service works adopted by a number of governments. But the UK ceased to recognise the Convention at the same time as the Fair Wage Resolution was abolished in the 1980s.
Wages Councils	No*	In 1909 the Trade Boards Act established four boards in low-paying sectors. The use of boards grew to a peak in 1953 when 66 councils covered around 3.5 million workers and some 85% of the economy. Councils set minimum pay rates, rates for different grades; holiday pay and other terms of employment. They were collaborative, involving employer and employee representatives, together with independent members. The wages councils were first weakened and then abolished in the 1980s and 1990s. At abolition in 1993 they covered 2.5 million workers for whom statutory minimum pay protection was then lost. The loss of wages councils has been associated with increasing pay dispersion in the economy.
National Minimum Wage	Yes	A national minimum wage was introduced in April 1999, the result of a commitment made by the Labour Government. Minimum wage legislation remains significant in establishing a public policy role in the labour market with particular benefits for female low-wage workers and those working part-time. Claims from opponents that it would lead to job losses or constraints on employment have not been borne out; but the rate (£6.19 for adults) is set low, currently at only 82% of the broadly accepted rate of living wage outside London (£7.65), itself slightly below the rate of low pay (£7.47 in 2013). And rises in the minimum wage have been below inflation.
TUPE – Transfer of Undertakings (Protection of Employment)	Yes	Regulations originate from EU employment law and protects public service workers' rights, pay and conditions where their employer ceases to be a public sector institution through contracting out or privatisation. Some trade unions have been successful in negotiating TUPE-plus agreements to extend the protection. Overall however, ensuring the application of TUPE protections has been challenging and risks being more challenging in future as services become more fragmented and more labour market flexibility is supported by policy-makers.[84]
Two-Tier Codes	No	Introduced by the last Labour administration these codes were aimed at avoiding a two-tier workforce where some staff were transferred over from the public sector with rights to TUPE protection, but other directly recruited staff were not. Although there was no great commitment to monitoring and enforcing the codes, they did at least prevent contractors overtly competing on lower labour costs.[85] Under the present coalition government the codes were rescinded in 2010 and 2011 and replaced by a weaker voluntary set of Principles of Good Employment Practice.

Endnotes

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2 The low pay threshold is defined as 60% of median income for the economy as a whole. This calculation is based on median gross hourly earnings forall (full and part time) workers in April 2012, Source: *ONS, Annual Survey of Hours and Earnings 2012 – Provisional Results*, 22 November 2012 http://www.ons.gov.uk/ons/dcp171778_286243.pdf

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