The wage that's not for living: the problem with the "National Living Wage"

The British government has spent the past year heralding the latest increase in the rate of the "National Living Wage", set at £7.50 an hour as of the 1st of April 2017, arguing that it will both increase the spending power of low-paid workers as well as rescuing millions from the effects of in-work poverty. However, while efforts to alleviate poverty should always be encouraged, these claims nonetheless deserve further scrutiny.

While the introduction of the National Living Wage (NLW) in April 2016 was lauded by the then-chancellor George Osborne as an almost unprecedented means of "giving Britain a pay rise" to combat poverty and create a "higher wage economy", the rate at which the NLW is now set cannot be considered a "living wage" in the traditional sense of the term, i.e. a rate that people can "live" on whilst avoiding falling into poverty.

While in comparative terms its implementation (and planned increases) will put Britain in the top quarter of the minimum wage rates of comparable countries, increasing the wages of over 2.5 million workers, a basic hourly pay set at £7.50 cannot hope to keep up with the high cost of living in the UK. After a six-month review of the NLW the Living Wage Commission concluded the same, arguing that such a rate fails to provide the basic needs for the lowest paid in Britain.

Ongoing changes to the various avenues of social security support that are available to low-paid workers also help to fatally undermine the effectiveness of this increase in the legal minimum rates of pay. To take two examples, planned cuts in both Working and Child Tax Credits are scheduled to result in a loss on average of over £2,500 for the typical low-paid worker, with larger families progressively losing more.

The Institute for Fiscal Studies has calculated that, despite rises in hourly pay as a result of the NLW, overall social security cuts will result in the poorest working-age households losing between 4 and 10 per cent of their income a year, on average: thus while pay is going up, overall incomes are going down. This is exacerbated by an ongoing trend for a large proportion of new jobs being created to be set at or around minimum wage rates: thus while the NLW may be increasing hourly pay, the proportion of the workforce officially designated as living in poverty is also increasing.

There is also a question of basic fairness with regards to the NLW: namely, that it only applies to workers aged 25 or over, with younger workers subject instead to the various rates of the National Minimum Wage (NMW). The government has argued that the reasoning for this is that younger workers are more at risk of being priced out of jobs than older workers, although more party-political motives for this divide have also been put forward, with under-25s voting Conservative in the fewest numbers making them an easier demographic to target for savings.

Such suspicions have not been quelled by remarks such as those by Cabinet Office minister Matthew Hancock, who has argued that workers under 25 deserve lower rates because they are "not as productive" as older workers. Nonetheless individuals and households at such an age face the same cost of living pressures as those over 25, leaving the demographic divide created by the NLW open to criticisms of exacerbating already-strong generational inequalities.

The typical means of calculating what constitutes a "living wage" is by defining hourly wage rates against an established poverty threshold, with wages that fall under this threshold leaving workers vulnerable to various forms of in-work poverty and unable to afford a basic standard of living (for example by not being able to pay their rent, heat their home, or afford groceries).

The NLW, however, is instead based on a target of reaching 60 per cent of median earnings by 2020, rather than taking into account what workers and their families require to live and avoid poverty. Given this, and despite its labelling, it cannot be considered a living wage in any traditional sense of the term.

This is the central argument of Citizens UK and the Living Wage Foundation, a UK-wide grassroots movement that since 2001 has led a grassroots campaign dedicated to convincing employers to voluntarily adopt a higher rate of pay that is, unlike the NLW, calculated with workers' basic needs in mind (namely £8.45 an hour and £9.75 for London).

The campaign has thus far convinced over 3,500 employers to become accredited "Living Wage Employers" and pay their staff at least these rates of pay, if not higher, with many organisations reporting increases in staff loyalty and performance and decreases in sickness and absence leave among workers upon implementation. Despite concerns that the introduction of the NLW would stall momentum for the campaign the number of employer adopting these rates has in fact doubled since April 2016, with an overwhelming 93% of employers stating that becoming a Living Wage Employer provided benefits to the business including better recruitment, retention, and staff motivation.

Proving the business case for the Living Wage has become even more crucial in recent years, as the emergence of new forms of working through the advent of the "gig economy" has also brought forward concerns about such work becoming ever more precarious and insecure, both in terms of pay and employment conditions. However even in this field, there are signs of some employers challenging this trajectory: for example Gigstr UK, a HR technology company based in London, have accredited themselves as a Living Wage Employer and guaranteed Living Wage rates to both their own and all third-party contracted staff, arguing that a well-motivated and financially secure workforce enables workers to provide a better service to their clients.

It is the popularity of this campaign for the Living Wage which George Osborne sought to co-opt by rebranding a rise in the national minimum wage as a new "National Living Wage": however, despite the ongoing rhetoric surrounding the NLW, and given its failure to account for the basic cost of living for low-paid workers in the UK as well as ongoing changes to social security support for low-paid workers, it cannot be considered a living wage at all.

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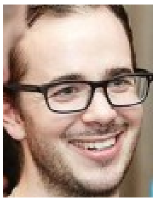

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