Working Brief: The business case for the living wage, September 2008 Deborah Littman, National Officer, UNISON

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## work for the NHS. You are doing an important job and you get paid peanuts. It monthly bu there s just enough money in the bank to pay my loan and the bills with little if

Before the 1997 election, Tony Blair said, "If the next Labour Government has not raised the living standards of the poorest by the end of its time in office, it will have failed". The Government made clear that it saw the primary and preferred route out of poverty as through work, and not through increased levels of social benefits.

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Yet, even with the overall decline in unemployment over the past nine years and improved incomes for the poorest families, the gap between the bottom and top income earners has continued to grow. At latest count 28% of female employees aged 18 and over and 16% of men are low paid, earning less than £6.50 an hour.<sup>2</sup>

It is clear that work is not proving an antidote to poverty. Two-thirds of low-income households have someone in work. Half of all children living in poverty live in households where someone is in paid work.<sup>3</sup> Put simply, the problem is that work for millions of workers in the UK does not pay a living wage.

The reason why so many families are falling behind in comparison to a generation ago is largely due to the changing nature of the labour market. Over the last several years many employers have reduced their costs by dividing their workforce, Core workers retain reasonable wages and benefits, while a second tier of workers hired on as temporary or casual workers or contracted out to a private company are paid at lower rates. Workers on these contracts receive the bare statutory minimum required

http://www.unison.org.uk/file/Working%20Brief%20Case%20for%20Living%20Wage%20--August%202007.doc

<sup>&</sup>lt;sup>1</sup> Pattison, V. (2006) 'The working poor and the living wage in Manchester', Unpublished PhD thesis. For more information contact <u>vincent.pattison@postgrad.manchester.ac.uk</u>,

Without unions to bargain on their behalf, they are often powerless to improve their situation.

John Cotton, Barclays' Canary Wharf programme director explained at the time.<sup>9</sup>

completely commercially viable because they provide us with a quality of employee and a commitment of employee which we believe will actually give us a better

<sup>10</sup> The new policy resulted in a dramatic drop in absenteeism. Turnover fell from 30% to 4%, while performance and customer satisfaction levels improved<sup>11</sup>.

In 2006 Barclays announced that it would roll

2000-strong UK branch network, and the company recently pledged to pay all of its 1000 cleaning, catering and post room staff across London £7.50 an hour (30p above the London Living Wage in force at the time) indexed linked to rise each January. The suppliers involved in the deal include Mitie, Lancaster, Initial, Mail Source, Restaurant Associates, Ararmark, Facilities

management director Jon Couret sa Although these employees are not directly employed by Barclays, we have a responsibility to ensure they receive a fair, well-

study has calculated that at December 2007 the Living Wage Campaign had won pay rises for an estimated 5,800 workers, amounting to an estimated total gain of  $\pounds$ 19,438,500.<sup>15</sup>

Protecting and enhancing reputation of the institution in the wider community

#### Private companies and public ins

high-minded mission statements mean little if the public becomes aware that they hide the exploitation of low paid staff. As multinational clothing firms like Gap and Nike discovered to their cost, it doe

labour. Smilar embarrassment lies in store for publicly funded institutions whose employment policies are found wanting. One top university, widely known for its to improving society through the study of poverty issues and the analysis

lowest hourly wage in real terms of any legally

Private firms are becoming increasingly aware that commitment to corporate responsibility is essential to their public image. As an American business ethics journal points out:

onally, firms have been judged on how well they serve stockholders. But in the 21st century -- a new era of ecological limits, corporate ethics crises, and rising societal expectations -- this traditional focus offers too narrow a definition of success. Firms rely upon healthy relations with many stock-holders. That means not only creating healthy returns for shareholders but emphasizing good jobs for employees, a clean environment, responsible relations with the community, and reliable products for consume

"Good corporate governance," they note, "can be as effective a marketing tool as a  $^{\ 18}$ 

## Fulfilling responsibility to the community

For publicly funded institutions with responsibility for the health and well-being of their communities, the importance of a living wage policy goes beyond good publicity. Local authorities, for example, are required to have a community plan, which sets out how the council will tackle racism, unemployment and poverty, while building social cohesion and encouraging local economic development. It would appear contradictory for an authority to adopt employment policies which

<sup>&</sup>lt;sup>15</sup> Wills, J(2008), The London living wage campaign: estimates of the numbers of workers covered and the wages gained (December 2007) For a wealth of data on the living wage campaign see: <u>http://www.geog.gmul.ac.uk/livingwage/index.html</u>

<sup>&</sup>lt;sup>16</sup> Submission to the Academic Planning and Resources Committee, LSE, 24 October, 2006. The university subsequently agreed to pay its cleaners the London Living Wage.

<sup>&</sup>lt;sup>17</sup> http://www.business-ethics.com/whats\_new/100best.html

<sup>&</sup>lt;sup>18</sup> Business Ethics Online, Ethics after Enron, http://www.business-

ethics.com/whats\_new/Vol\_20\_No\_2\_Ethics\_After\_Enron.html

condemned large numbers of their own staff (whether directly or indirectly employed) to exactly the conditions they were attempting to eradicate.

achievement, behavioural pathology and reduced job opportunities. The total social cost of low birth weight alone is estimated at £30 billion.<sup>20</sup>

The Association of London Government report Closing the Gap, Combating the causes of child poverty in London (February 2006) explicitly links low pay to child poverty and

While earnings are generally higher in London, the gap between the highest and lowest paid has increased significantly in the last 20 years. This unequal distribution of earnings and the high costs of living in the capital have also had an

particularly a problem for disadvantaged groups such as those from BME communities.

The link between low pay and child poverty has been explicitly recognised by central government. The Department of Work and Pensions recently pub

asking employers to make a commitment to measures which will reduce child poverty. One of the proposed actions employers are encouraged to sign up to is a pledge to pay all staff in the organisation, and sub-contracted agencies, the London living wage.<sup>21</sup>

#### Positive benefits from paying a living wage

The benefits derived from paying a living wage are significant and measurable. A 2005 study of low-paid contract cleaners at the Royal London Hospital found that earning a living wage made a dramatic difference to the ability of workers to support their families. A joint community-union living wage campaign had succeeded in raising wages for this group of private contract staff from £5.25 in 2004 to full NHS rates (£7.48 with London W eighting) in January 2006.

Researchers asked workers what difference the new pay rate made to their ability to pay for food, clothing, housing, child-related expenses and holidays. Less than half of the workers surveyed said that they had been able to afford adequate food on their previous salary. Once they received a living wage 85% were able to pay for the food their family needed. The living wage had a similar imp

for other necessities for themselves, and most importantly, for their children.<sup>22</sup>

It is not surprising that higher levels of pay reduce sickness absence levels. A study published in April 2007 by Marco Ercolani, from Birmingham University, and Martin Robson, from Durham University found that the introduction of the National Minimum Wage boosted the productivity of lower paid workers. The study found that the direct cost of sick leave to the UK economy was more than £11bn a year, about 1 per cent of the country's gross domestic product. It also concluded that a one percentage point rise in wages cut the rate of sickness absence by about 0.05%

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2005

<sup>&</sup>lt;sup>21</sup> The London Child Poverty Pledge, Child Poverty Unit, Department of Work and Pensions, Department for Children, Schools and Children, HM Treasury.

<sup>&</sup>lt;sup>22</sup> The impact of improved pay and conditions on low-paid urban workers: the case of the Royal London Hospital, April 2006, Geography Department, Queen Mary University, http://www.geog.gmul.ac.uk/staff/pdf/urbanworkers.pdf

beneficial productivity effects for firms and public sector organisations that employ significant numbers of low-  $^{\rm 23}$ 

And while low paid workers benefit from the extra income they receive in benefits, high marginal tax rates create a poverty trap they may not be able to escape. According to a recent study, more than two million working adults have Effective Marginal Tax Rates of more than 50%. The study found that someone working 35 hours a week at minimum wage, with non-working partner, renting and paying council tax would keep only 42.5p in every extra £1 they earned.<sup>26</sup>

Paying a living wage directly to a worker would be much simpler and cheaper to administer than benefits - and it would give people what they really want, which is justice, not charity.

Conclusion

# APPENDIX 2

Working Brief: The Case for the Living Wage

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Group CPAG is the leading charity campaigning for the abolition of child poverty in the UK and for a better deal for low-income families and children. The Big Issue The Big Issue is an international				
entity that works with homeless people all over the world				
UnLtd non-profit organisation that supports social entrepreneurs.				
Association of Chief Executives of Voluntary Organisations (ACEVO - the professional body for the third sector's chief executives, with over 2000 members.				
Westway Development Trust a non-profit organisation supporting local voluntary organisations and helping innovative new projects get established. A beacon living wage employer, Westway has produced its own living wage toolkit for other organisations wanting to implement a LW. See: <u>http://www.unison.org.uk/</u> <u>file/Westway%20Living%</u> 20Wage%20Toolkit%20-				
<u>%20full%20pack.pdf</u>	0007	0		
Olympics	2007 onwards	?		pending
GLA family	2006 onwards	100	£7.20	2006: £132,600 2007: £131,040
Greater London Authority Transport for London London Fire and Emergency Planning Authority				

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