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Low pay in London

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Executive summary

Increasingly, low pay has become a factor in poverty. This paper looks at the incidence of low pay in London, concentrating on four sectors: the cleaning sector; the retail sector; the social care sector; and the hospitality and catering sector. As well as cross sectional data, the work analyses panel data – in other words, data on the same individuals over time – enabling an analysis of how persistent low pay is over time and whether some categories of employees are more vulnerable to persistent low pay than others.

The work for this paper was conducted to support the London Assembly's Economy Committee investigation into low pay in London¹. This paper analyses statistics requested by the Economy Committee from the Office for National Statistics (ONS) as part of this investigation².

The definition of 'low pay' used in this paper (suggested by the London Assembly's Economy Committee for its investigation) is hourly pay excluding overtime below the 20th percentile point in the pay distribution for all London employees. So defined, this 'low pay' rate has been consistently above the London Living Wage (LLW).

Part time employees are much more likely to be low-paid than full-time employees – the paper finds that the median hourly rate of pay for part-time workers has been persistently below the 'low pay' level. Moreover over 50 per cent of part-time male workers earn less per hour than the London Living Wage.

Since 1997 the proportion of employees in the social care sector in low pay has been between 40 and 50 per cent. For the retail sector, the proportion has been even higher at 50-60 per cent. For the hospitality and catering sector the proportion in low pay has been higher still at 60-70 per cent and for the cleaning sector, between 75 and 85 per cent of employees have been in low pay. Moreover in three of the four 'low pay' sectors, the proportion of 'low paid' employees was at a peak in 2012 (or equal to a previous peak in the case of hospitality and catering). This suggests that the difference between these sectors and the non-'low pay' sectors may be increasing and indeed the differences in median pay have increased.

In the cleaning sector, median hourly pay has been persistently below both the 'low pay' level and the LLW. In the hospitality and catering sector, median hourly pay was above the LLW in 2003-5 but since then has been persistently below it. Since 1997 it has always been below the 'low pay' level. In the retail sector, median hourly pay has been above the LLW but below the 'low pay' level (apart from in 1997). The social care sector is the only one of the four 'low pay' sectors in which the median pay rate has been consistently above both the LLW and the 'low pay' level.

In three of the four 'low pay' sectors, the proportion of employee jobs that are low paid was historically high in 2012. However the evidence on pay dispersion is mixed. In the cleaning sector, the extent of pay dispersion has been contracting and in the hospitality and catering sector, there is little evidence of increased dispersion. But in the other two 'low pay' sectors, the extent of pay dispersion in nominal terms has increased (though in proportional terms the increase has been much less marked).

¹ <http://www.london.gov.uk/mayor-assembly/london-assembly/investigations/low-pay-and-the-london-living-wage>

² <http://www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/published-ad-hoc-data/labour/october-2013/index.html>, references 001827, 001830 and 001835.

The analysis also examines the persistence of low pay, defined as three years in low pay in any of these four year periods: 1997-2000, 2001-2004, 2005-2008 and 2009-2012. The data need to be interpreted with caution as people who moved into self-employment or became unemployed or economically inactive or who left London – or who simply failed to respond to the survey – left the scope of the analysis.

Although low pay has not been as prevalent in the retail sector in London as in the cleaning or hospitality and catering sectors, a higher share of employees in the retail sector has been in persistent 'low pay' as compared with the other three 'low pay' sectors. But – possibly encouragingly – the proportions in all 'low pay' sectors in persistent low pay are much smaller than those on low pay for just one year in any four-year period. The decline in the proportions on low pay when the focus moves from one year to three years holds true even in the retail sector where persistence of low pay has been the highest of the 'low pay' sectors.

On the other hand, a significant proportion of those who are in low pay for three years in any four year period remain in low pay for the fourth year. For those in low pay for three consecutive years in 'low pay' sectors in London, the chance of remaining in low pay for a fourth year is around – or over – 50 per cent.

Persistence of low pay is much more common in the 'low pay' sectors than in the non-low pay sectors. Employees in the 'low pay' sectors are around four times as likely to be in persistently low pay than employees in other sectors.

There are two age-related findings from analysing the panel data. The first is that older employees are more likely to be in persistent low pay than younger employees. The second is that employees aged 22-29 are less likely to be in persistent low pay than the average, when looking across 'low pay' sectors.

Introduction

This paper looks at the incidence of low pay in London, concentrating on four sectors. The analysis was conducted to support the London Assembly's Economy Committee investigation into low pay in London³. This paper analyses statistics requested by the Economy Committee from the Office for National Statistics (ONS) as part of this investigation⁴. The four sectors were chosen by the Economy Committee. This paper provides details of the data and the findings from the data.

The four 'low pay' sectors are the cleaning sector; the retail sector; the social care sector; and the hospitality and catering sector. Importantly the paper uses panel statistics as well as cross sectional analysis. Using panel data allows us to focus on those who remain in low pay jobs for a number of years. The purpose of this is that by improving our understanding of the characteristics of the persistently low paid, policy directed at reducing the persistence of low pay can be better designed.

There is no consensus on the definition of 'low pay', nor is there any official definition. For example, the OECD defines low pay as gross earnings less than two-thirds of full-time median adult earnings. Eurostat defines it as a monthly wage less than 60 per cent of the median salary. The Resolution Foundation (a UK think tank whose goal is to improve living standards for those on low and middle incomes) defines it as hourly wages below two-thirds of gross median hourly pay.

The definition of 'low pay' specified by the Assembly's Economy Committee was hourly pay excluding overtime that is below the 20th percentile point of (in other words, in the bottom quintile of) the pay distribution for all sectors in London. Therefore this is the definition used in this paper. Table 1 compares various indicators of low pay in London:

Table 1: Low pay indicators for London (2012)

| | |
|---|--------|
| Two thirds of full-time median pay | £11.42 |
| Two thirds of gross median hourly pay | £10.47 |
| 20 th percentile point of pay distribution (all sectors) | £9.63 |
| 60 per cent of median pay | £9.42 |
| London Living Wage | £8.55 |

Source: ONS Annual Survey of Hours and Earnings (ASHE); GLA Economics

Note: Although the London Living Wage is calculated as an hourly rate of pay it is based on estimates of acceptable household incomes – after means tested benefits have been taken into account. It is therefore not strictly comparable with the other indicators of low pay in Table 1.

It is important to bear in mind that although low pay and poverty are related, they are not the same thing. Looking at hourly earnings does not convey information about total earnings, without information about hours worked or bonuses; neither does it take into account tax credits or benefits received; nor does it reveal anything about household incomes (as opposed to the incomes of individuals). That having been said, in the UK the association between low

³ <http://www.london.gov.uk/mayor-assembly/london-assembly/investigations/low-pay-and-the-london-living-wage>

⁴ <http://www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/published-ad-hoc-data/labour/october-2013/index.html>, references 001827, 001830 and 001835.

pay and poverty has increased. The Joseph Rowntree Foundation reports⁵ that in 2011/12 there were around 13 million people in poverty in the UK. Of these, around 6.7 million were in a family where someone worked. The remaining 6.3 million were in workless working-age families or families where the adults were retired. This is the first time in the history of this data series where in-work poverty has made up the majority of poverty. Fifteen years ago, in-work poverty was only one-third of all poverty in Britain. Since then the number of people in workless poverty has fallen by three million and the number in working poverty has risen by 1.6 million. Trust for London reports that comparing 1999/00 to 2001/02 with 2009/10 to 2011/12, the number of adults in poverty and in working families increased from 440,000 to 740,000, while the number of adults in workless families in poverty hardly changed⁶. The report states that in 2012, 57 per cent of adults and children in poverty in London were in working families.

The issue of low pay in London has been a longstanding priority of the Mayor of London. The then Mayor took up the London Living Wage (LLW) campaign in 2005 and his successor in 2008 continued to encourage London-based employers to pay the LLW. In his '2020 Vision' for London he pledged to make the LLW the norm across the capital. There are over 200 employers that are fully accredited LLW employers and over 18,800 workers in the capital have benefited from the LLW. Note that while the LLW is an hourly pay rate, it is calculated by estimating the net household income required to maintain a minimum acceptable quality of life (plus a bit more 'for a rainy day').

The paper uses data from the Annual Survey of Hours and Earnings (ASHE) published by the Office for National Statistics (ONS) in April each year. ASHE is based on a 1 per cent sample of employee jobs taken from HM Revenue and Customs Pay as you Earn (PAYE) records. In London the sample is around 26,000 employee jobs. ASHE does not cover the self-employed. For this paper, ASHE data is analysed on a workplace basis – that is, the analysis excludes London residents who work outside London but includes those who commute into London from outside.

⁵ Monitoring Poverty and Social Exclusion 2013, Joseph Rowntree Foundation.

⁶ London's Poverty Profile 2013, Trust for London

Methodology

The data

This paper uses data from the Annual Survey of Hours and Earnings (ASHE) for the period 1997 to 2012. ASHE is based on a 1 per cent sample of employee jobs taken from HMRC's PAYE records. If a person's PAYE record is selected for the sample, they remain in the sample for their working life so long as they continue to work as an employee. Thus, some people will remain in the sample throughout their working lives, while others will only be in the sample for part of the time. They may leave the sample if they become self-employed, unemployed or economically inactive – for instance if they decide to leave work to bring up children. Each year, people join the sample as they start working, while others leave.

The ASHE data can be analysed in two ways:

- **Cross sectional analysis** looks at the results from each year's survey. The individuals in the sample may change, but it is possible to compare results over time. The results are presented for jobs rather than individuals⁷. Weights are used to provide a 'representative' estimate of employee jobs in London.
- **Panel data analysis** follows the same people over time. This enables us to look at people who remain in low pay jobs (as employees) for a number of years, ie, persistence in low pay jobs⁸. The results are for individuals but they are unweighted so they do not necessarily constitute a representative estimate of the population of employees.

Low pay jobs

The definition of pay used for the analysis in this paper is 'hourly gross pay excluding overtime'. The results presented are for employees aged 22 and over. Unless stated otherwise, they include employees whose pay is reduced to reflect, for example, the fact that they are in training or apprenticeships⁹. An employee job was defined as being a low pay job if the hourly pay excluding overtime was below the 20th percentile point of the pay distribution for all sectors in London. This point changed each year between 1997 and 2012 (see Chart 1).

Low pay sectors

The analysis looks at four 'low pay sectors' in London, namely, retail; social care; hospitality and catering; and cleaning. These are some of the sectors where low pay is common.

To identify employees within these sectors, it was necessary to define the sectors using the Standard Industrial Classification (SIC). This is the official classification system for industrial sectors in the UK. The SIC is made up of sections, divisions, groups, classes and sub-classes. Table 2 shows how each of our 'low pay' sectors was constructed from elements of the SIC.

⁷ The difference is that some individuals have more than one job. Statistical surveys of employment based on jobs (such as the Business Register and Employment Survey) will invariably give higher numbers than surveys based on individuals e.g. the Labour Force Survey)

⁸ Some employees have more than one job. We were able to count employees with jobs that are low paid, but not their total income from all jobs.

⁹ The standard ASHE tables published by ONS exclude such employees but include employees aged under 22 (but aged at least 16). The Assembly's Economy Committee wanted to exclude employees aged under 22 in order to confine the analysis to adults – before 2010 there was a reduced National Minimum Wage rate for those aged under 22. Since 2010, the reduced rate has applied to those aged 21 and under.

From time to time, the SIC categories are revised to reflect changes in the structure of the economy. The latest change was from SIC2003 to SIC2007. The data used for this analysis was collected on a SIC2003 basis until 2008 and on a SIC2007 basis thereafter. Further information on SIC2003 and SIC2007 can be found at www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/index.html

Table 2: The SIC Composition of ‘low pay’ sectors

| Specific industry sectors | SIC2003 codes | SIC2007 codes |
|---|--|--|
| Retail | Division 50 + division 52 + sub-classes 71404, 71405 | Division 45 + division 47 + class 7722 + group 952 |
| Social care in residential care homes and nursing homes | Class 8531 + sub-class 85113 | Division 87 + sub-class 86102 |
| Hospitality and catering | Section H: Hotels and Restaurants | Section I: Accommodation and Food Service Activities |
| Cleaning | Group 747 + class 9301 | Group 812 + class 9601 |

Source: ONS

It should be noted that not all jobs in these ‘low pay sectors’ are low paid. For instance, there may be some managers on relatively high pay in the retail sector. Nor are all jobs aligned with the sector’s overall classification. For example, there may be cooks and cleaners working in the social care sector. For statistical purposes every employee has both a SIC classification and an occupational one (in the Standard Occupational Classification¹⁰).

In addition to analysing jobs in each of the four ‘low pay’ sectors separately, the analysis looks at jobs in all four ‘low pay’ sectors together (‘all low pay sectors’). People will appear in more than one sector if they have more than one job **and** their jobs are in different sectors; but within ‘all low pay sectors’ they will only appear once.

Persistence in low pay jobs

The ASHE cross sectional data enables the analysis of – for example – average earnings in ‘low pay’ sectors and the proportion of employee jobs that are low pay jobs in each ‘low pay’ sector. Data were produced for each year from 1997 to 2012.

It is important for policymakers to know the proportion of employees in London’s ‘low pay’ sectors that remains in low pay jobs for a number of years. To do this, the ASHE panel dataset was used and the period from 1997 to 2012 was divided into four equal parts: 1997-2000, 2001-2004, 2005-2008 and 2009-2012. Persistence in low pay was defined as remaining in a low paid job for at least three years during a four-year period. Data was also produced for the numbers in a low paid job for at least one year.

It should be noted that if someone were to work for two years in a job in the retail sector and then for two years in a job in social care they would not be counted as persistently in low pay in this analysis, either in retail or social care because they did not remain in the job in either sector for three years. However, they **would** be counted as persistently in low pay in ‘all low pay sectors’.

¹⁰ <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/soc2010/soc2010-volume-1-structure-and-descriptions-of-unit-groups/index.html#1>

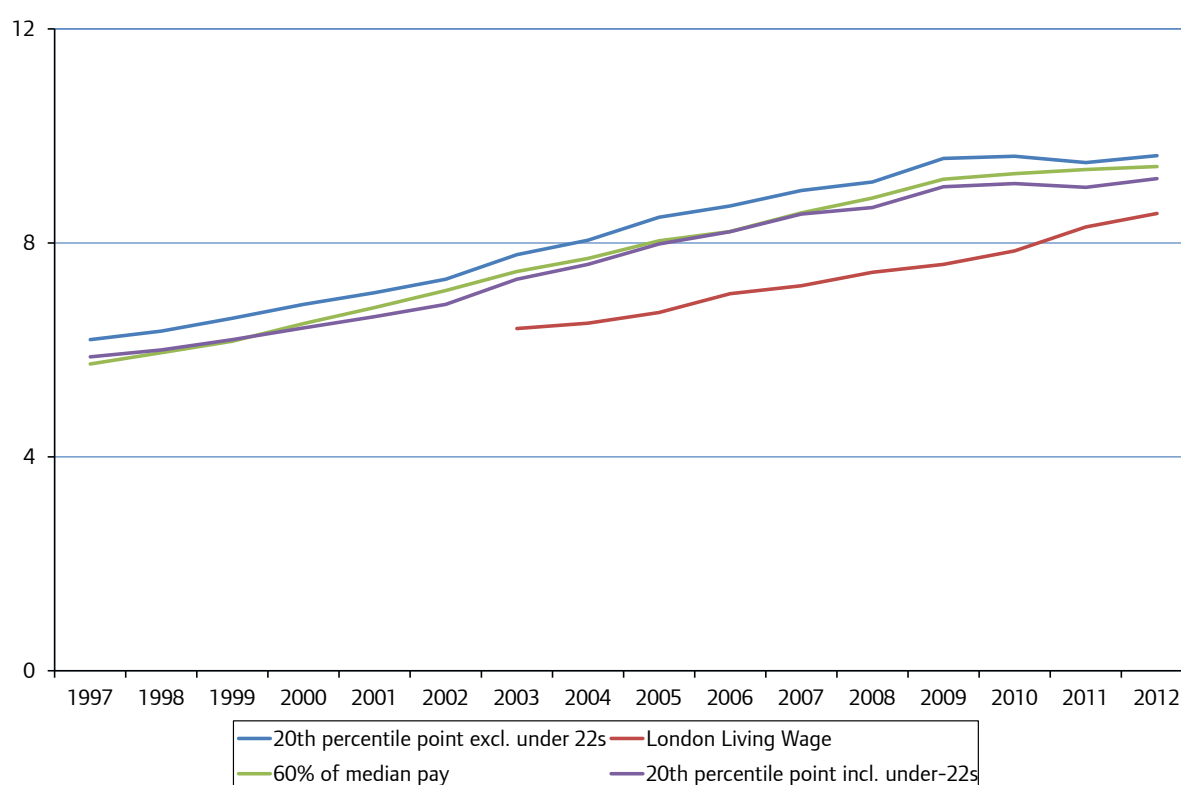
For the persistence in low pay analysis, it is also important to analyse differences in results between young employees and older employees. Therefore employees were allocated to age groups. This allocation was based on the employee's age at the start of the four-year period or, if they were not present in the dataset at the start of the period, their age in the first year that they appeared in the dataset.

Finally, readers should note that this analysis is limited to employees in London. If an employee moved to a workplace outside London or became self-employed, unemployed or economically inactive, they left the scope of the analysis. Similarly, a person who moved to a workplace in London from elsewhere or became an employee was only counted from this point onwards.

Pay in all sectors in London

Chart 1 sets in context the definition of ‘low pay’ chosen by the Assembly’s Economy Committee and used in this paper – namely, hourly pay excluding overtime below the 20th percentile point in the pay distribution for all sectors in London. It shows the ‘low pay’ rate over time and compares it to the London Living Wage and to another related measure of ‘low pay’ – namely, 60 per cent of median pay¹¹. Chart 1 shows that ‘low pay’ has been relatively close to 60 per cent of median pay, but has been consistently above the London Living Wage (the latter is based on household incomes and so takes into account in-work benefits and tax credits). Note that including those aged under 22 reduces somewhat the pay level representing hourly pay excluding overtime below the 20th percentile point in the pay distribution for all sectors, as young workers typically earn less.

Chart 1: Low pay rates in London, all sectors (£)

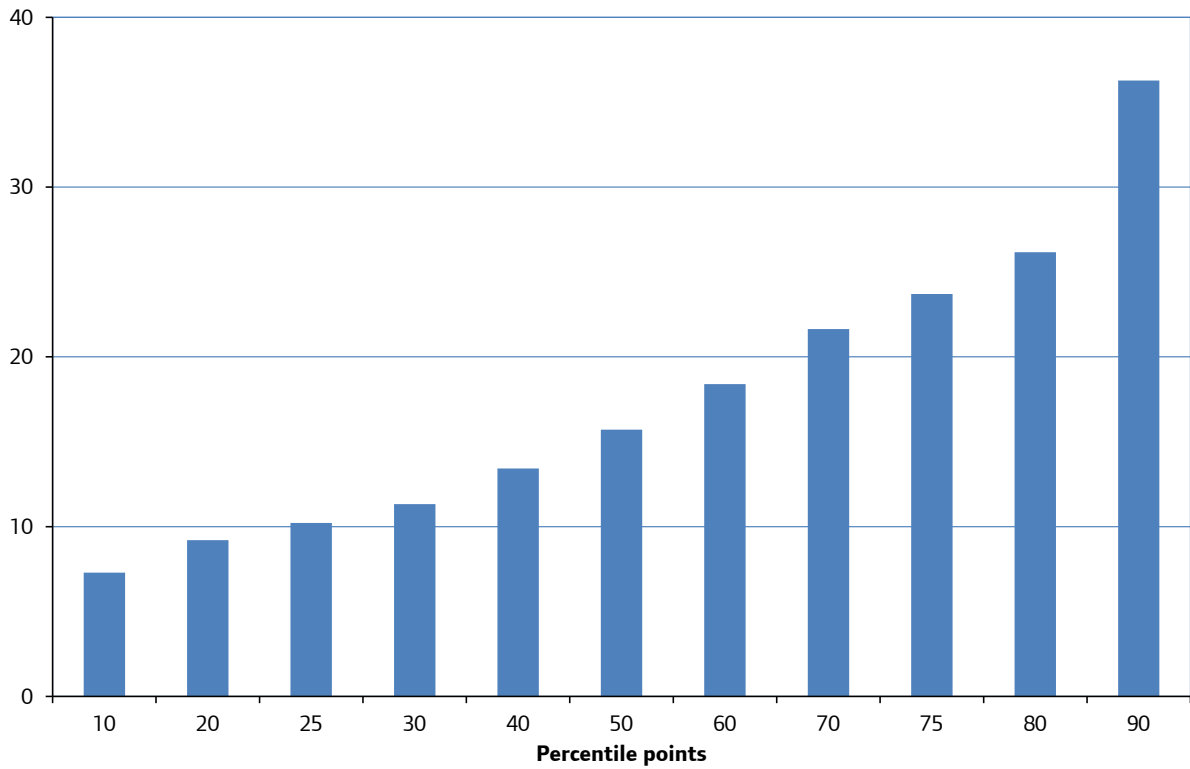


Source: ONS Annual Survey of Hours and Earnings (ASHE). ‘20th percentile point excl. under-22s’ includes employees aged 22 and over, including employees who were paid less than adult rates of pay (eg, because of training or apprenticeships); ‘20th percentile point incl. under-22s’ includes employees aged 16 and over on adult rates of pay.

For reference, Chart 2 shows the distribution of pay in London in 2012.

¹¹ Based on the more common measure of poverty, and the measure used by the European Union, of 60 per cent of median incomes (rather than pay).

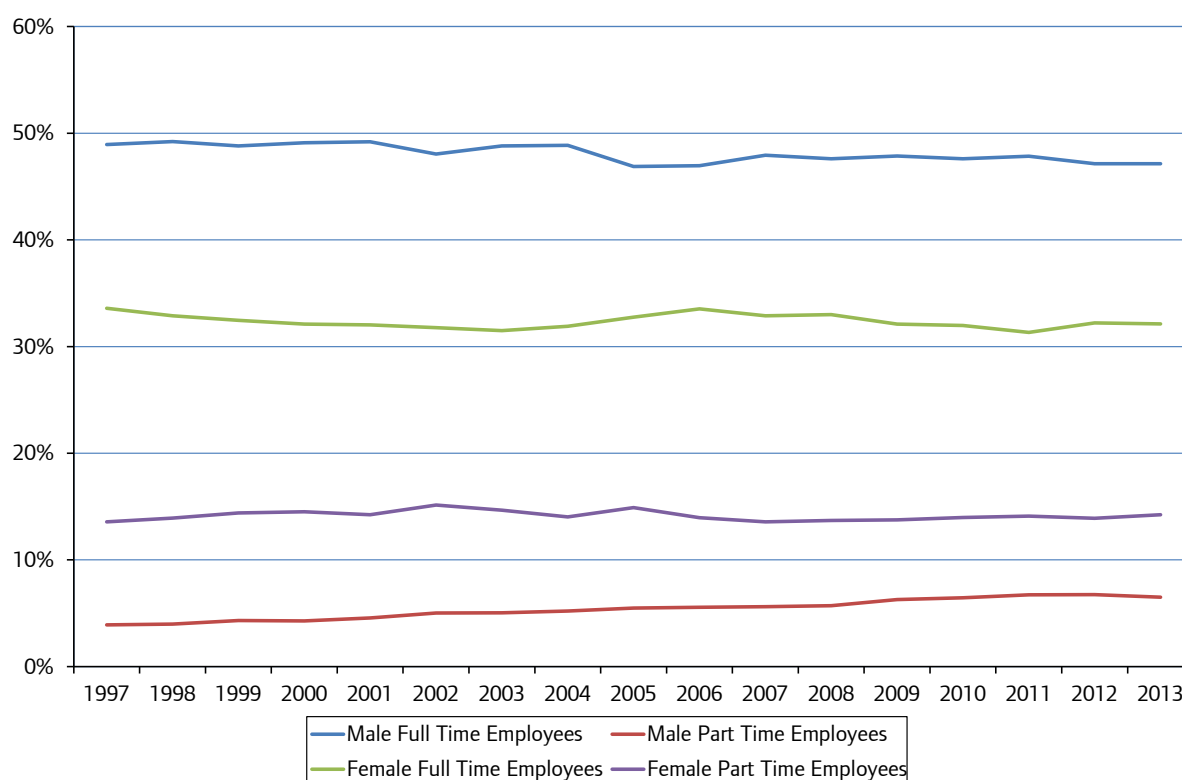
Chart 2: Distribution of pay in London, 2012 (£, gross hourly excluding overtime)



Source: ONS Annual Survey of Hours and Earnings (ASHE); includes employees aged 16 and over on adult rates of pay.

Chart 3 shows how working patterns have changed over the time period analysed. There has been a very marginal fall in the overall share of full-time employees and a near doubling of the proportion of part-time male employees in London's workforce, from 3.9 per cent in 1997 to 6.5 per cent in 2013.

Chart 3: Working patterns in London (%)

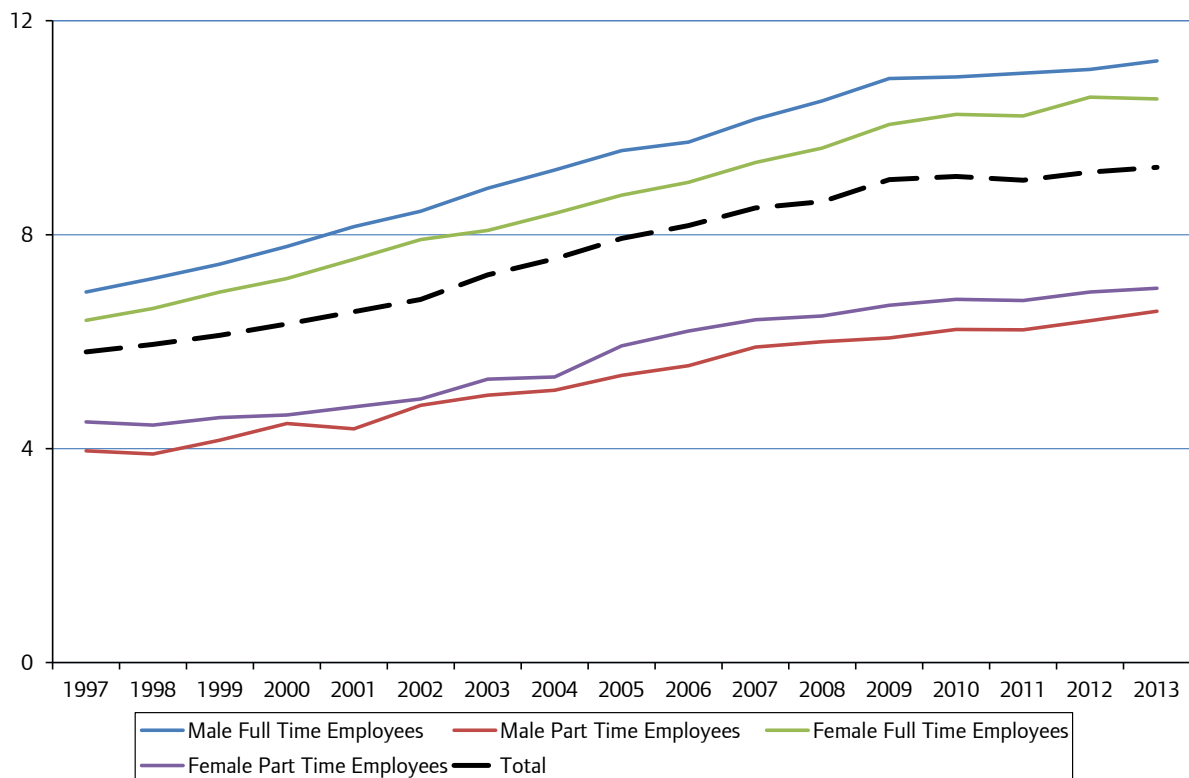


Source: ONS Annual Survey of Hours and Earnings (ASHE); includes employees aged 16 and over on adult rates of pay.

Chart 4 shows the 20th percentile low pay rate in London for separate sub-groups based on working pattern and gender¹². It shows that the 20th percentile for both male and female full-time workers has been persistently above the 20th percentile for all workers, whereas the 20th percentile for both male and female part-time workers has been persistently below the 20th percentile for all workers. However the 20th percentile for male full-time workers has been persistently above that for female full-time workers whereas for part-time workers this gender imbalance has been persistently reversed.

¹² The 'low pay' rate in Chart 4 excludes workers paid less than adult rates of pay - for example because they were in training or apprenticeships - but includes workers aged under 22 (but aged at least 16). This is the definition used in the standard ASHE tables published by ONS (for example on NOMIS). The difference between this rate and the 'low pay rate' adopted by the Assembly is small, amounting to 5 per cent in 2012 (£9.17 excluding non-adult rates but including those aged under 22, versus £9.63 including non-adult rates and excluding employees aged under 22).

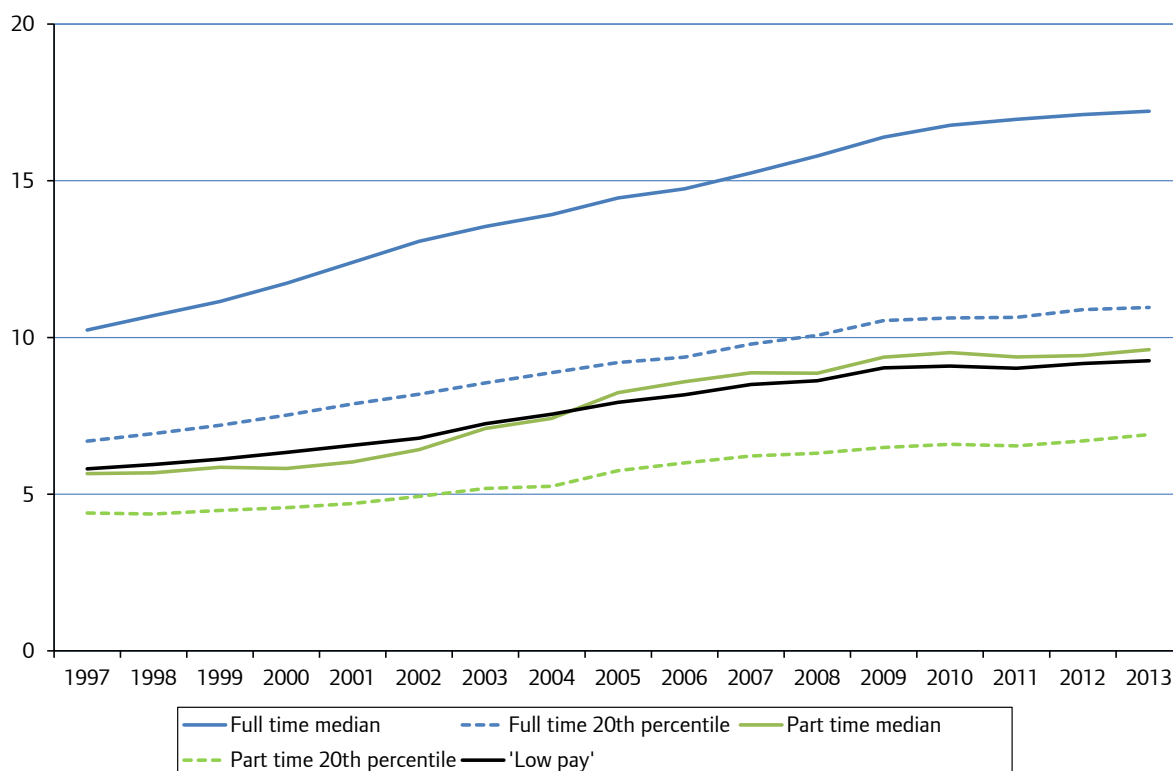
Chart 4: Breakdown of the 20th percentile point low pay rate including under 22s, London, all sectors (£)



Source: ONS Annual Survey of Hours and Earnings (ASHE); see footnote 12; includes employees aged 16 and over on adult rates of pay.

Part-time employees are much more likely to be low-paid than full-time employees: Chart 5 shows that the median wage for part-time employees in London is less than 60 per cent of that for full-time employees and that the 20th percentile of wages for full-time employees has been consistently above the median wage for part-time employees. Even median pay for part-time workers (the solid green line) has never been far above the 'low pay' level (the black line - to recap, this is defined as hourly pay excluding overtime below the 20th percentile point in the pay distribution for all sectors) and has at times been below it.

Chart 5: Full-time, part-time and low pay in London (£)



Source: ONS Annual Survey of Hours and Earnings (ASHE); see footnote 12; includes employees aged 16 and over on adult rates of pay

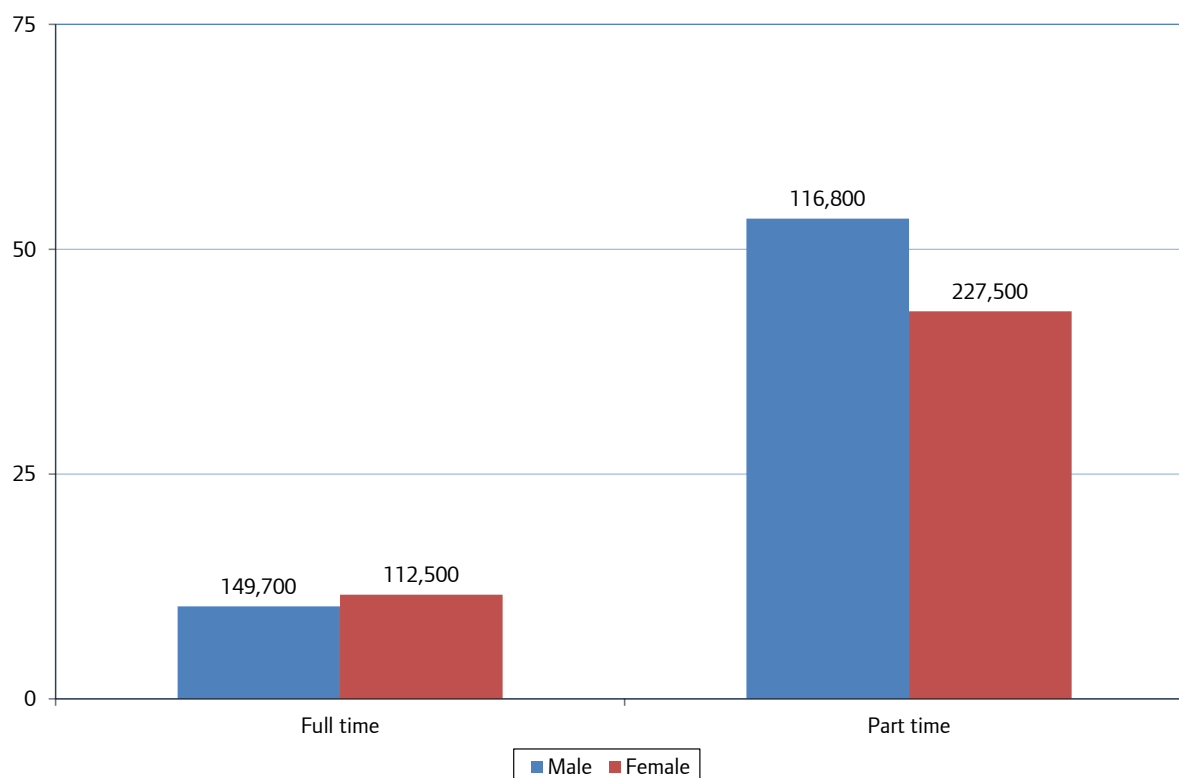
Comparing hourly wages from ASHE in 2012 with the London Living Wage, 18.3 per cent of employees earned less than the 2012 London Living Wage – 15.8 per cent of men and 21.1 per cent of women¹³. And there are 25,000 employees (0.7 per cent of the total) who earn less than the National Minimum Wage¹⁴.

Chart 4 and Chart 6 show that the 'gender pay gap' reverses when it comes to part-time workers.

¹³ A Fairer London: The 2013 Living Wage in London (GLA Economics); data for April 2012.

¹⁴ For 2013, less than £3.68 per hour (aged 16-17) or £4.98 per hour (aged 18-20) or £6.19 per hour (aged 21 and over). Pay can be below the National Minimum Wage if an employer provides accommodation. The cost of providing accommodation can be offset against the NMW, in an amount up to £4.91 per day.

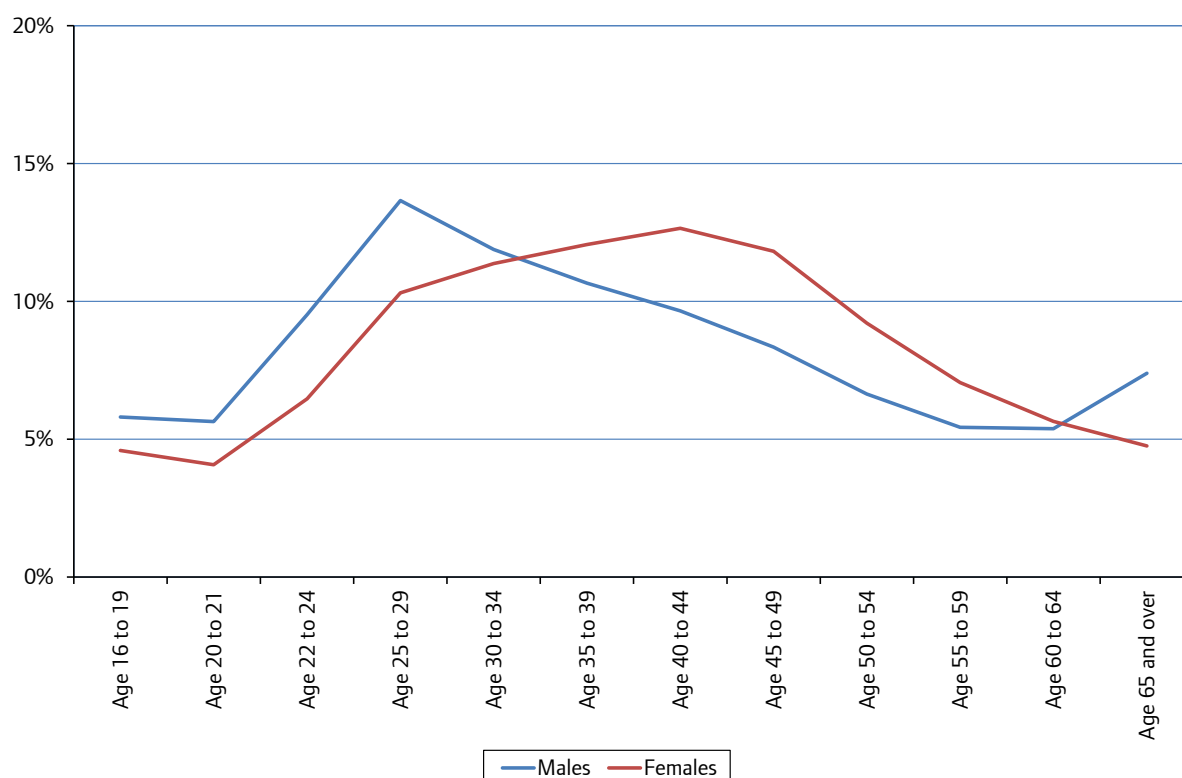
Chart 6: London workers earning less than London Living Wage, by gender (2012)



Source: "A Fairer London: the 2013 Living Wage in London" (GLA Economics); ONS Annual Survey of Hours and Earnings (ASHE) and Annual Population Survey (APS); includes employees aged 16 and over on adult rates of pay

Chart 6 shows that more women than men earn less than the London Living Wage. 56 per cent of those earning less than the London Living Wage are women (340,000) versus 44 per cent who are men (266,500). Further, it shows that whereas 10.3 per cent of full-time male workers in London earn less than the 2012 London Living Wage, the figure for female workers is higher at 11.6 per cent. But for part-time workers, less than half (43.1 per cent) women earn below the London Living Wage, versus 53.4 per cent of men. This may be because of the different age profiles and thus career stages, of male and female part-time workers – men may take part-time jobs either in their early working years as a 'stepping-stone' to full-time work, or after leaving a full-time job (eg, when they start to draw a pension) whereas women may choose to work part-time from a relatively young age, in order to combine work with family responsibilities. Chart 7 shows that for men, part-time working peaks at age 25-29, then declines steadily, before rising again at age 65 and over. For women, the peak for part-time working is age 35-49, when they may be more likely to be in a senior position compared to men in their 20s or over 65.

Chart 7: Age distribution of male and female part-time employees living in London, as share of total



Source: Census 2011

A second possible explanation is that once women have children, they may reduce their hours, whereas men may be more likely to continue working a full working week, only working part time if they cannot get full-time work. So, part-time female workers may have higher qualification levels than part-time male workers¹⁵.

Higher pay for female part-time workers, in comparison to men, may also be related to differences in types of job, possibly related to the industry sectors in which they are employed and whether they work in the private or public sector.

The official statistics could be understating the extent of low pay in London. London has a very high proportion of migrant labour, statistically more likely to be in low pay¹⁶. For example in 2004/5, 62 per cent of catering assistants, 56 per cent of care assistants and 69 per cent of cleaners in London were foreign-born¹⁷. Some of these migrants will be in the statistics, but others will not: London has a high proportion of irregular migrants¹⁸ which suggests that the irregular economy is disproportionately large. Because ASHE is based on PAYE returns, the irregular economy – where the incidence of low pay is likely to be greater than in the regulated economy – is not covered.

¹⁵ <http://www.theatlantic.com/business/archive/2013/11/there-are-only-three-kinds-of-jobs-where-women-earn-more-than-men/281080/> - this article has evidence for this, albeit in a US context.

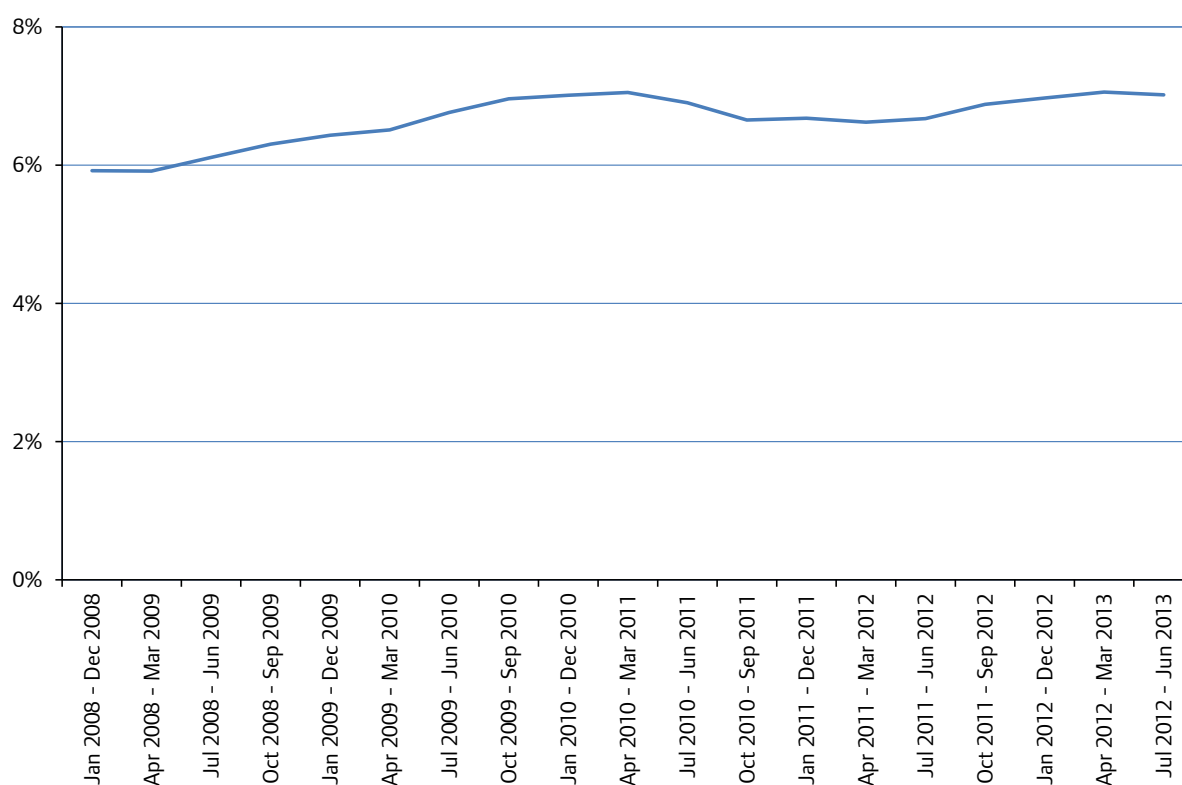
¹⁶ See for example 'Global Cities at Work: Migrant labour in low paid employment in London', Queen Mary University of London (available at <http://www.geog.qmul.ac.uk/globalcities/reports/docs/FINALREPORT.pdf>)

¹⁷ Wills, J., May, J., Datta, K., Evans, Y., Herbert, J. and McIlwaine, C. (2009), 'London's migrant division of labour'

¹⁸ 'Economic impact on the London and UK economy of an earned regularisation of irregular migrants to the UK', available at http://www.london.gov.uk/mayor/economic_unit/docs/irregular-migrants-report.pdf

A further trend which may have exacerbated the issue of low pay in London has been the move towards temporary contracts and away from permanent contracts. Over the past four years, 43 per cent of the rise in the number of employees in London has been in temporary – rather than permanent – jobs¹⁹. This has taken the proportion of temporary jobs in the total from under 6 per cent to above 7 per cent, see Chart 8. And temporary jobs are much more likely to be low-paid than permanent ones; in 2012, 31.5 per cent of temporary jobs in London were ‘low pay’ versus only 19.1 per cent of permanent jobs²⁰. The problem of low total pay for employees on temporary contracts is exacerbated by the fact that they work fewer hours. In 2012 employees in London on permanent contracts worked on average for 35.1 hours per week, 28 per cent more than those on temporary contracts (27.4 hours)²¹. The number of employees with a temporary contract who would like a permanent one is close to the highest since the question was first asked in 2004 and the number saying they do not want a permanent job is the lowest²².

Chart 8: Proportion of employees in London who are temporary



Source: ONS Annual Population Survey (APS)

¹⁹ Source: ONS: Table H107-3, Regional Labour Market statistics; APS data shows a rise (Jul 2012-Jun 2013 on July 2008-Jun 2009) of 33,000 in temporary employees and 78,000 in all employees.

²⁰ <http://www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/published-ad-hoc-data/labour/january-2014/employee-jobs-in-london-2005-12-by-permanence-of-contract-and-low-pay-status.xls>

²¹ <http://www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/data-available-on-request/labour-market/january-2014/index.html>

²² See Table H107-3 of Regional Labour Market Statistics, monthly publication from the ONS

Pay in 'low pay' sectors in London

Having looked at some of the characteristics of the low-paid in London, the analysis moves to focus on four sectors where low pay is common. The incidence of low pay in these sectors is compared with that in all sectors combined and also assessed relative to the London Living Wage. The incidence of low pay in each of the four sectors is compared with the other 'low pay' sectors, with that in all sectors combined and with non-'low pay' sectors. The analysis also looks at dispersion of pay in the 'low pay' sectors – in particular, focusing on whether this has increased over time, both in proportional and absolute terms. Finally the section examines whether there is in the 'low pay' sectors a prevalence of categories of employees who tend to be lower-paid.

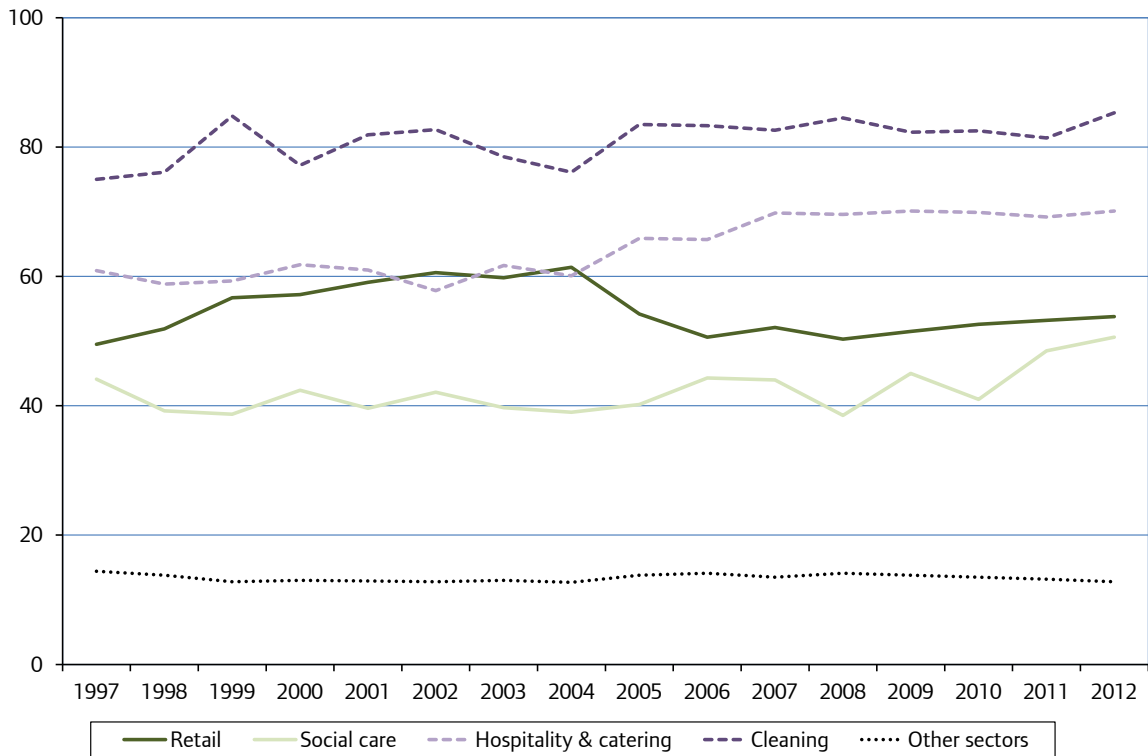
The section begins by analysing pay data for four sectors in London where low pay is particularly common: retail; social care; hospitality and catering; and cleaning (henceforth these sectors are referred to as 'low pay' sectors). The data in this section also comes from ASHE, but covers only employees aged 22 and over and includes employees who were paid less than adult rates of pay.

Chart 9 shows that the incidence of low pay in these sectors is indeed very high relative to other sectors. Taking our measure of low pay in London (hourly pay excluding overtime below the 20th percentile point in the pay distribution for all sectors in London) it can be seen that since 1997 the proportion of employees in the social care sector in low pay has been between 40 and 50 per cent. For the retail sector, the proportion is even higher at 50-60 per cent. For the hospitality and catering sector the proportion in low pay is higher still at 60-70 per cent and for the cleaning sector, between 75 and 85 per cent of employees have been in low pay since 1997.

Moreover Chart 9 shows that in three of the four 'low pay' sectors, the proportion of employee jobs that are low paid was at a peak in 2012 (or equal to a previous peak in the case of hospitality and catering). This suggests that the difference between these sectors and other non-'low pay' sectors is increasing. Chart 10 shows median pay in each of these three sectors versus median pay in non-'low pay' sectors. The difference has indeed been increasing.

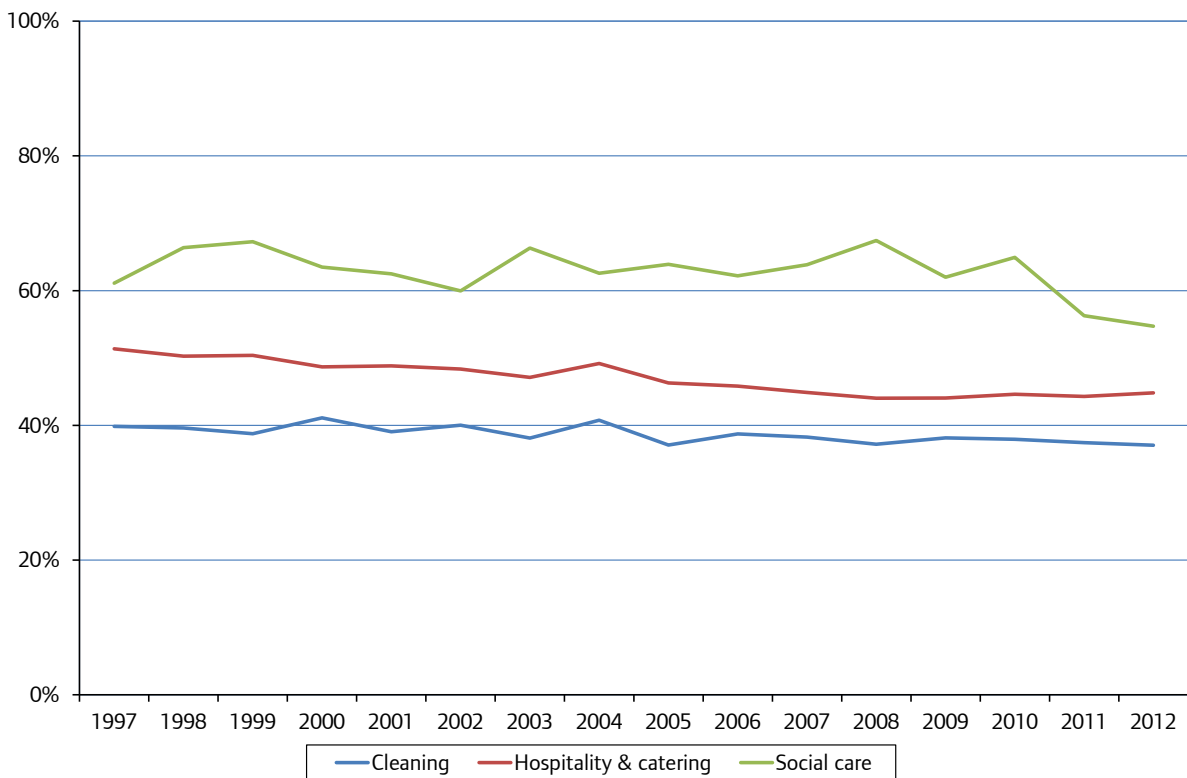
Chart 9 also shows that there has been a trend increase over time in the proportion of jobs in London in the hospitality and catering industry that are 'low paid', from around 60 per cent to around 70 per cent. In the retail sector the proportion of 'low paid' jobs at first trended up (between 1997 and 2004) peaking at 60.1 per cent. But between 2004 and 2008 this trend reversed and the proportion of 'low paid' jobs in 2008, at 50.3 per cent, was almost back at the 1997 level (of below 50 per cent). It is possible that this reversal was linked to the continuous strong growth in the economy in these years which benefitted the retail sector. There has been a slight growth in the 'low paid' proportion since 2008, taking it to 53.8 per cent in 2012.

Chart 9: Percentage of employee jobs that are 'low pay' jobs in London



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 10: Median pay as % of that in non-'low pay' sectors



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

The next set of charts (all drawn on the same scale to facilitate comparison) compares pay in the 'low pay' sectors to the London Living Wage and also looks at the distribution of pay in each of the four 'low pay' sectors. Calculated each year by GLA Economics, the London Living Wage is the wage which provides the minimum acceptable quality of life for an employee and their families plus a bit more 'for a rainy day'. The charts also show the 'low pay' definition used in this paper (that is, hourly pay excluding overtime below the 20th percentile point in the pay distribution for all sectors in London).

Chart 11 shows pay in the cleaning sector. It was noted above that since 1997, between 75 and 85 per cent of employees in the cleaning sector have been in low pay. Given the prevalence of low pay in this sector it is not particularly surprising that even the median pay level (let alone the 10th and 20th percentile points) has been persistently below the London Living Wage since it was first calculated in 2003. The 80th percentile point has remained above the London Living Wage although the gap has narrowed from 28 per cent in 2003 to just 5 per cent in 2012. However the 80th percentile point has been persistently below the 'low pay' level since 2005 and was also below it in 1999, 2001 and 2002.

Turning to hospitality and catering – where the incidence of low pay amongst employees has varied between 60 and 70 per cent – Chart 12 shows that although the 10th and 20th percentile points of the pay distribution have remained persistently below the London Living Wage, the median was above the LLW in its early years. In fact it was 3 per cent above the LLW in 2003, 8 per cent above it in 2004 and 3 per cent above it in 2005. But since then it has been persistently below the LLW – the gap has risen, to a maximum of 8 per cent in 2012. In contrast to the cleaning sector, the 80th percentile point for the hospitality and catering sector has been persistently above the 'low pay' level. However the median for this sector has remained persistently below the 'low pay' level.

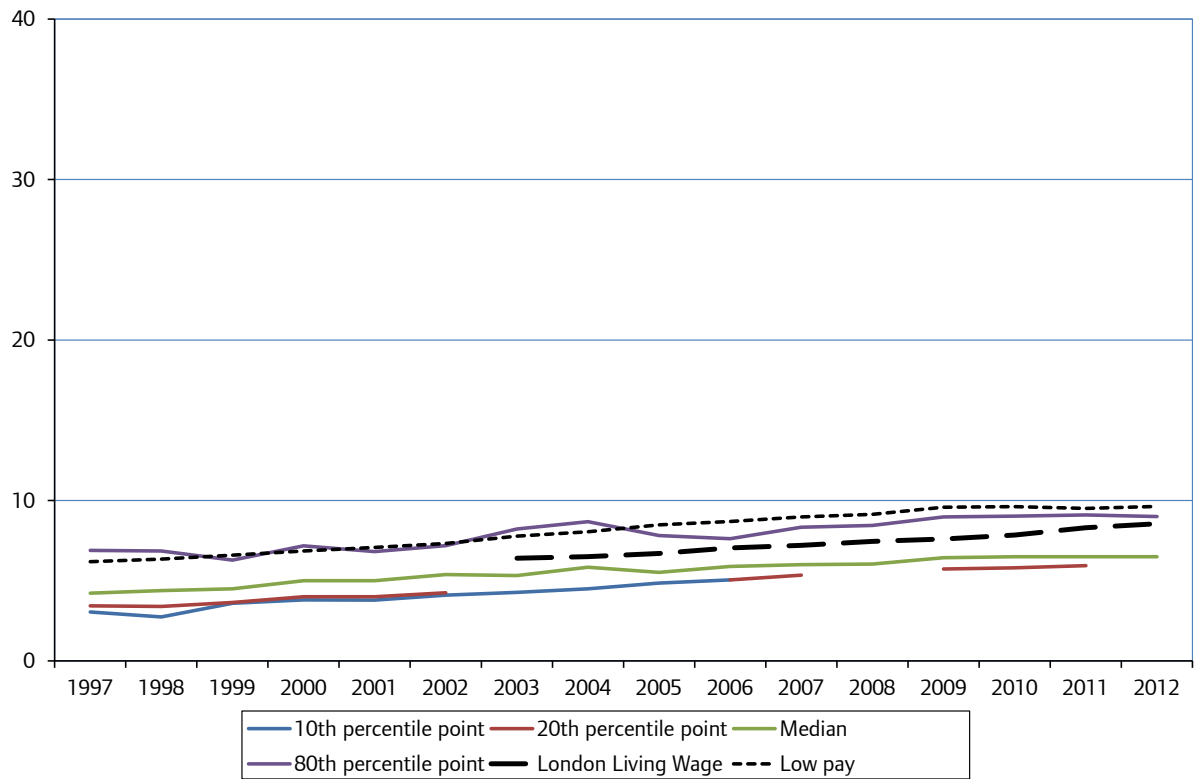
The pay distribution in the retail sector is shown in Chart 13. Again, the 10th and 20th percentile points of the pay distribution have remained persistently below the London Living Wage. However looking at the median, it has been persistently above the London Living Wage. The margin was 4 per cent when the LLW was first calculated in 2003, rising to around 20 per cent or above in 2005-2010, before narrowing as the median fell progressively from 2009-2012 – in 2012 the margin of median pay in the retail sector over the London Living Wage was 7 per cent. In contrast to the cleaning and hospitality and catering sectors, the median pay in the retail sector has been close to (but below) the 'low pay' level in recent years (only in 1997 was it above the 'low pay' level).

Pay in the social care sector is shown in Chart 14. As noted above, the incidence of low pay in this sector has not been as great as in the other three 'low pay' sectors, with between 40 and 50 per cent of employees in London on low pay since 1997. While the 10th and 20th percentile points of the pay distribution have remained persistently below the London Living Wage, the median has been consistently above it. The margin was around 40 per cent up to 2010, though since then it has reduced, to 18 per cent in 2011 and 12 per cent in 2012. In addition – and in contrast to the other three 'low pay' sectors – the median has been consistently above the general 'low pay' level (2012 excepted).

Chart 15 looks at all other sectors, in order to set the 'low pay' sectors into context. Here even the 10th percentile point of the pay distribution has been above the London Living Wage (by between 5 and 15 per cent between 2003 and 2012). (However it has been persistently below the 'low pay' level). The median level of pay in these 'non-low pay' sectors has been persistently

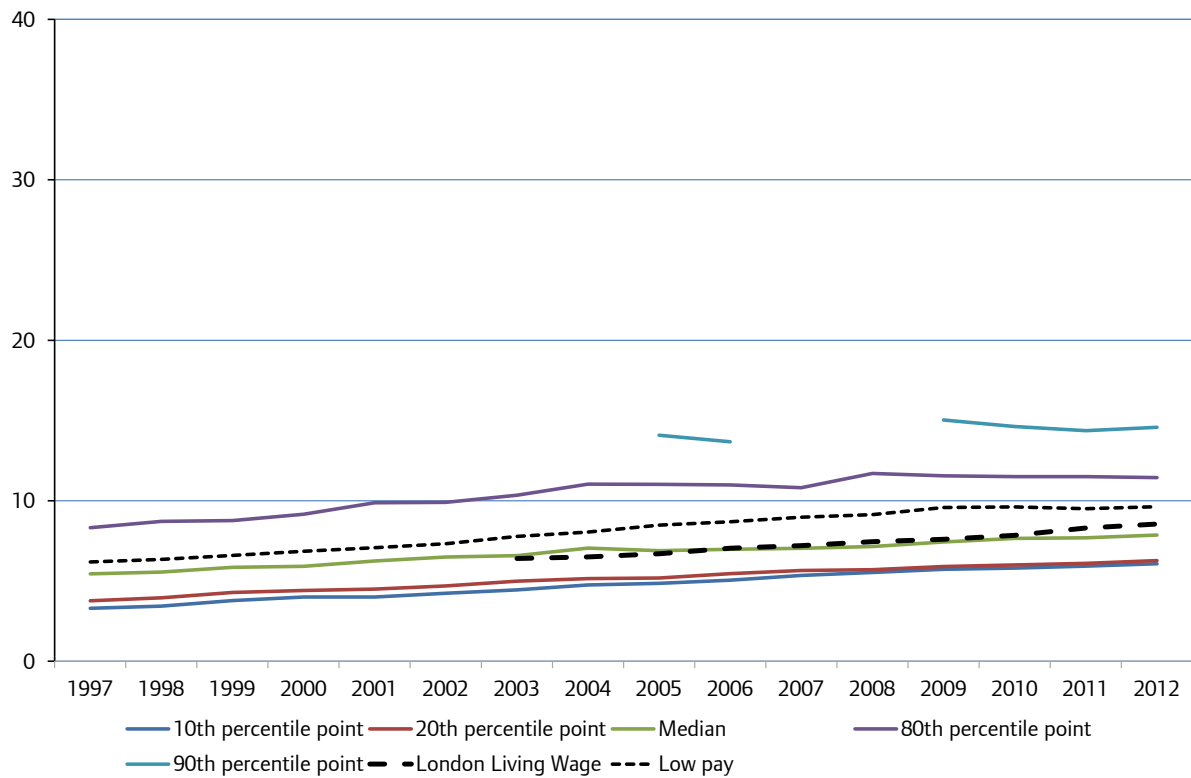
more than twice the London Living Wage and 70-80 per cent more than the general 'low pay' level.

Chart 11: Cleaning Sector: Hourly pay excluding overtime (£)



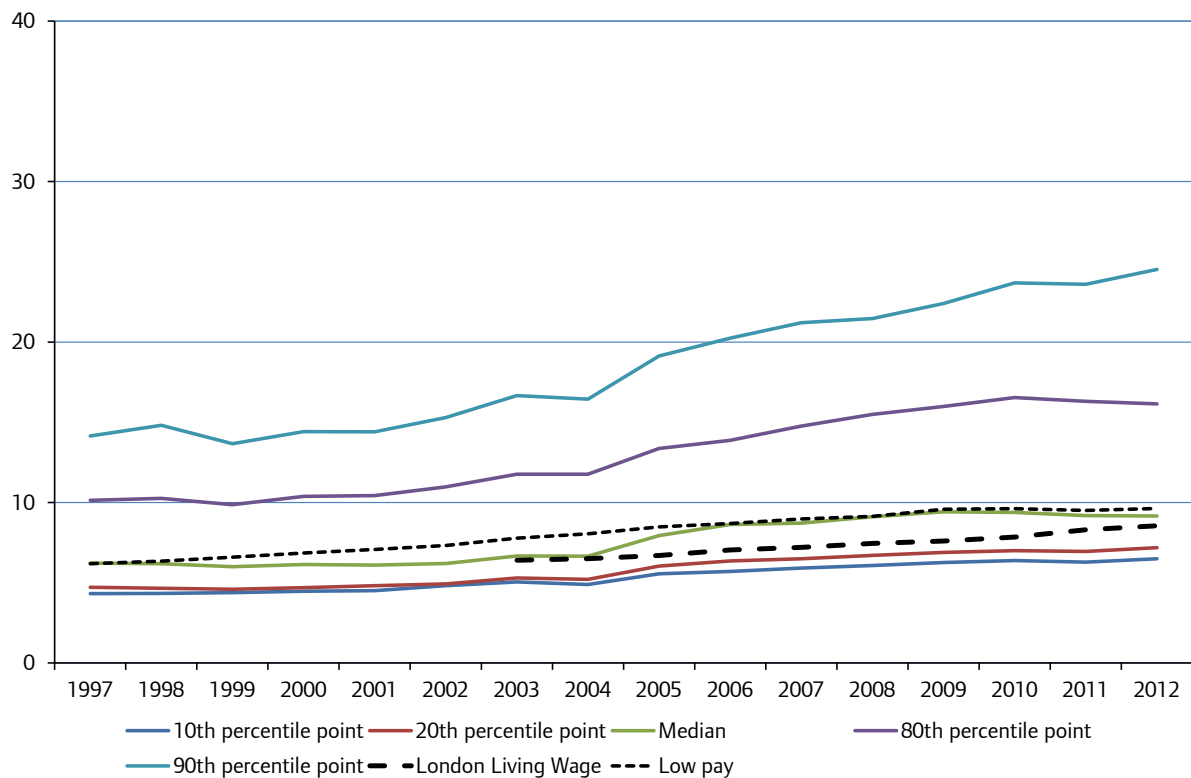
Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 12: Hospitality and Catering Sector: Hourly pay excluding overtime (£)



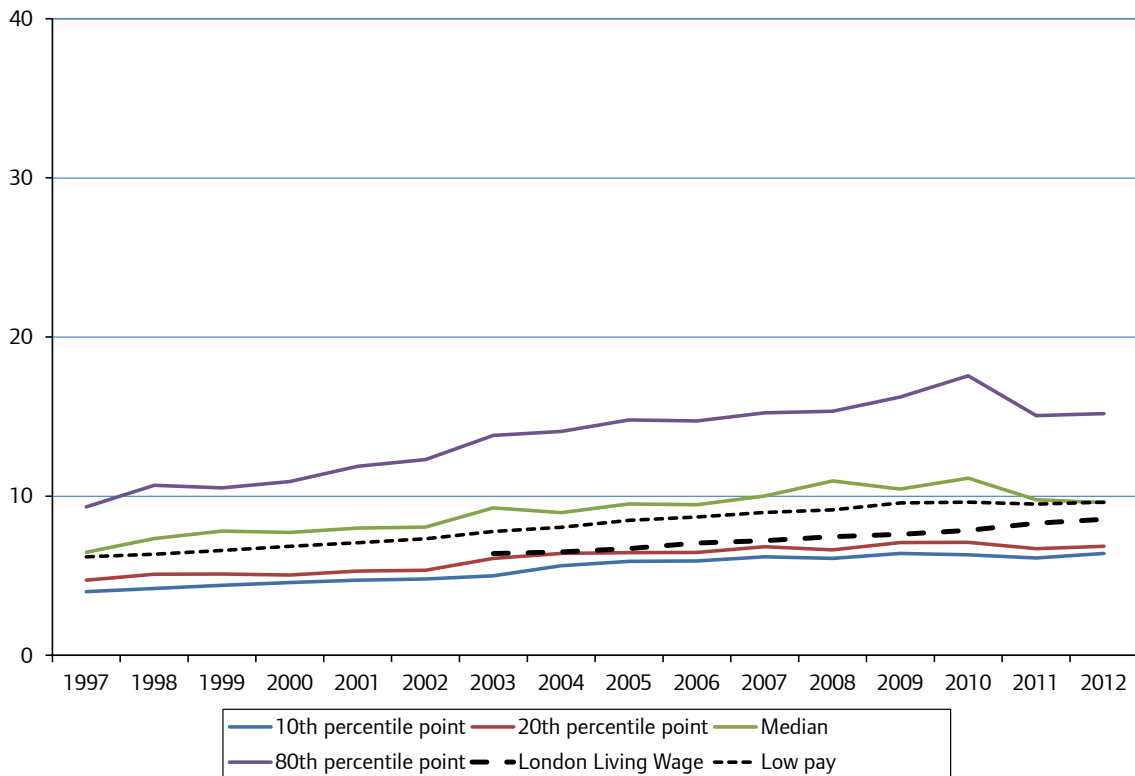
Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 13: Retail Sector: Hourly pay excluding overtime (£)



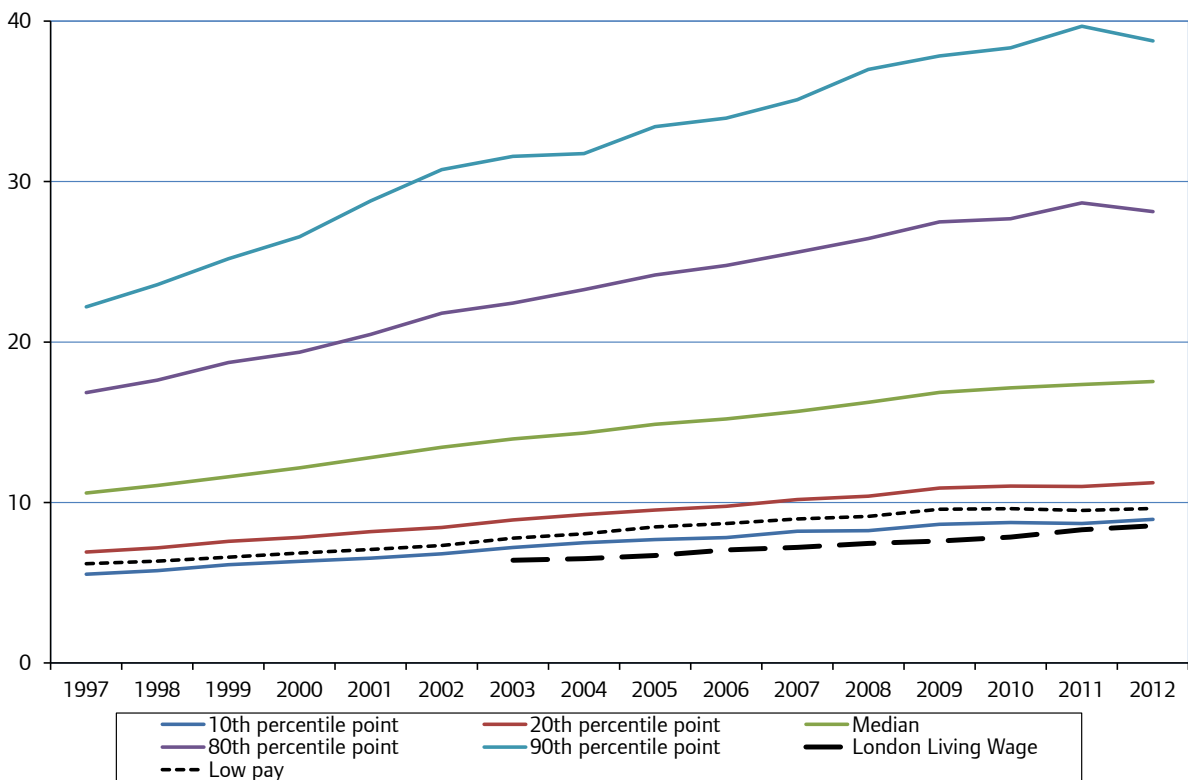
Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 14: Social Care Sector: Hourly pay excluding overtime (£)



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 15: Other Sectors: Hourly pay excluding overtime (£)

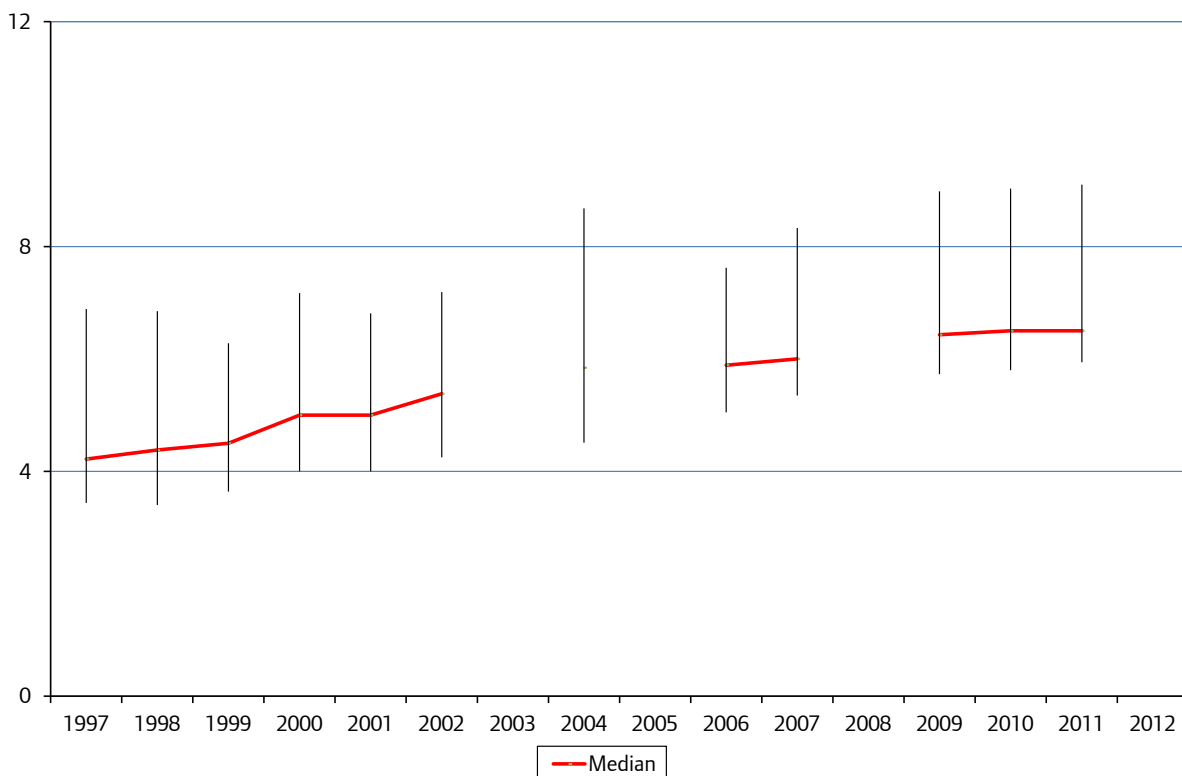


Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Earlier it was noted that in three of the four ‘low pay’ sectors, the proportion of employee jobs that are low paid was historically high in 2012. But for policy purposes it is important to know whether the dispersion of pay within the ‘low pay sectors’ has also been increasing.

In Chart 16, the length of the vertical lines show the spread of hourly earnings in the cleaning sector in London from the 20th to the 80th percentile – in other words, the pay band which encompasses the middle three-fifths of pay of employees. The spread of hourly earnings from the 20th to the 80th percentile has contracted even in nominal terms over the period. In other words, the extent of dispersion of pay in this sector has contracted. (Some years (2003, 2005, 2008, 2012) are missing from Chart 16. The reason is that in the ASHE data, the 20th percentile earnings have been suppressed by the ONS, to avoid disclosure or because they are unreliable (small sample size)). In 1997 the spread of hourly earnings from the 20th to the 80th percentile was £3.45. By 2011 it had narrowed to £3.16. In proportional terms this was a contraction from a multiple of 2 to a multiple of 1.5 (that is, the ratio of the 80th percentile to the 20th fell from 2 in 1997 to 1.5 in 2011).

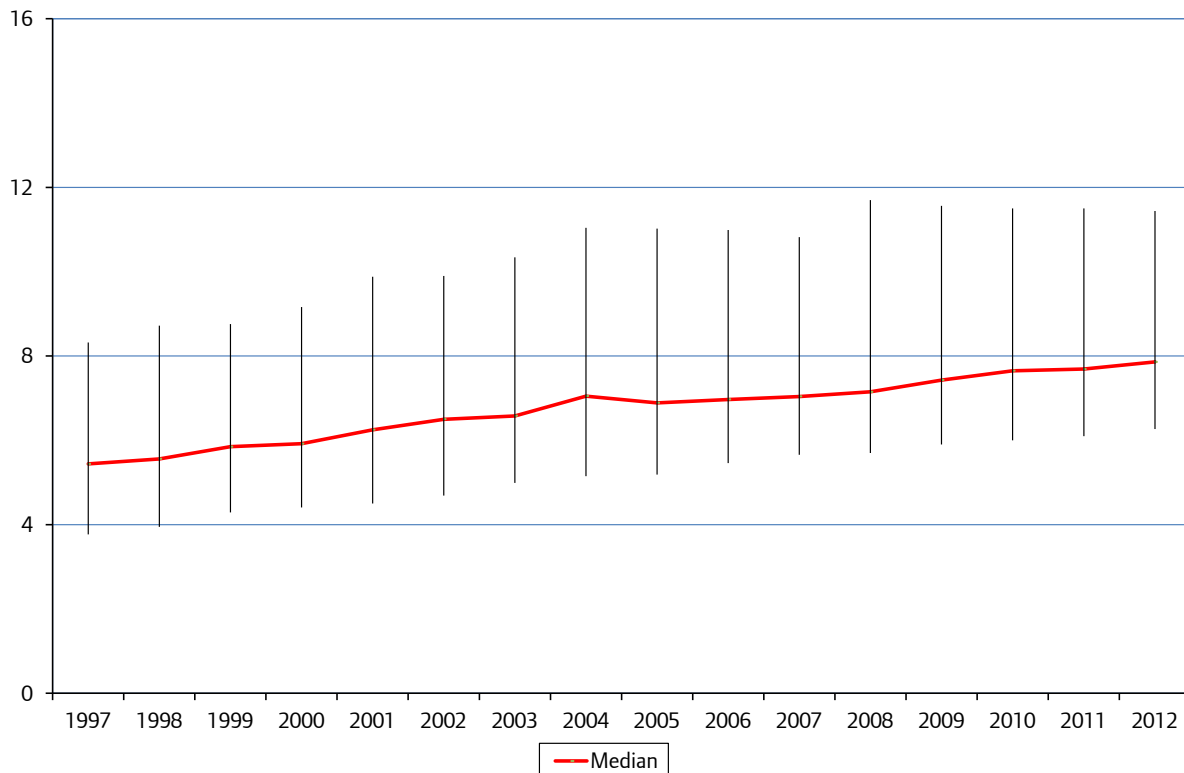
Chart 16: Cleaning sector, London: Spread of hourly earnings (£, excluding overtime) from 20th to 80th percentiles



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

In the hospitality and catering sector (Chart 17) the spread of hourly earnings from the 20th to the 80th percentile in 1997 was £4.55; by 2012 it had risen slightly to £5.17 but in proportional terms it contracted from a multiple of 2.2 to a multiple of 1.8 (that is, the ratio of the 80th percentile to the 20th fell from 2.2 in 1997 to 1.8 in 2012). So again, there is little evidence of an increase in dispersion of pay.

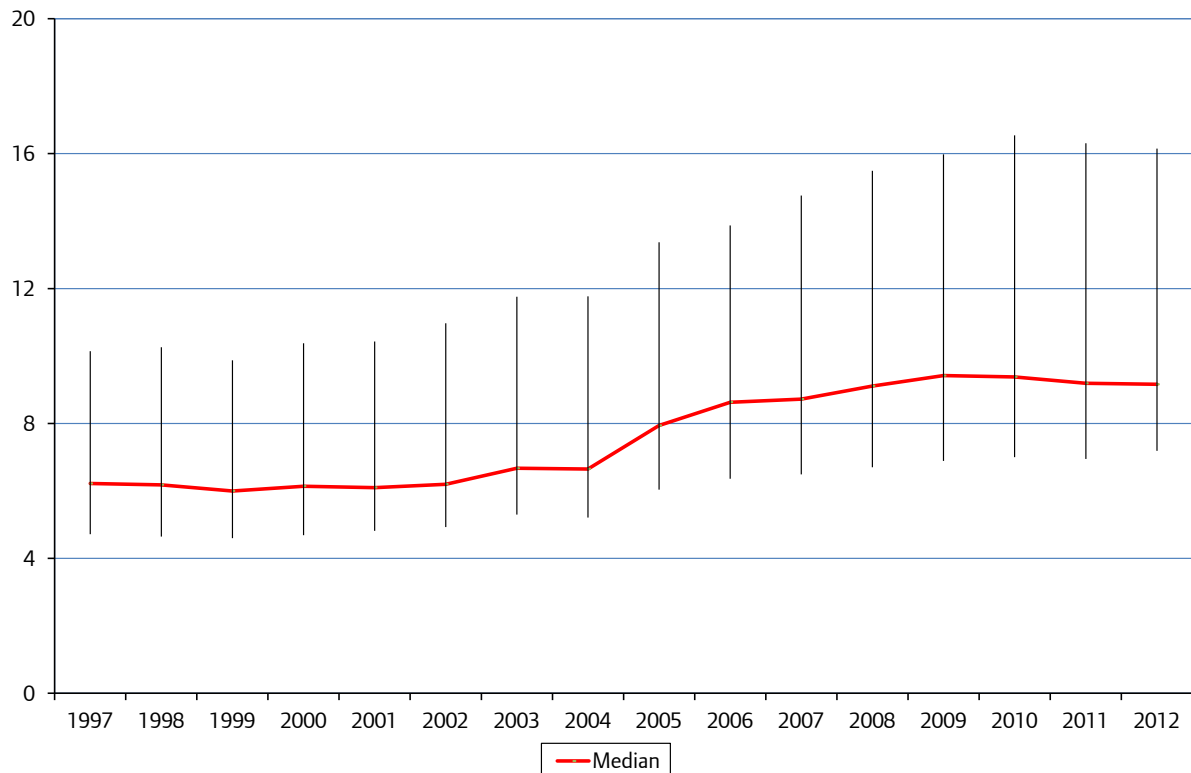
Chart 17: Hospitality and catering sector, London: Spread of hourly earnings (£, excluding overtime) from 20th to 80th percentiles



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

But in the other two ‘low pay’ sectors – retail and social care - there has been a slight increase in dispersion of pay. Chart 18 shows the spread of hourly earnings in the retail sector from the 20th to the 80th percentile – in other words, the pay band which encompasses the middle three-fifths of pay of employees. It can be seen that the spread has increased over time. In 1997 it was £5.42 but by 2012 it had risen to £8.96. However in proportional terms the relation between the 80th and the 20th percentiles of the distribution has been quite stable: in 1997 the 80th percentile was 2.1 times the 20th, in 2012 it was 2.2 times the 20th.

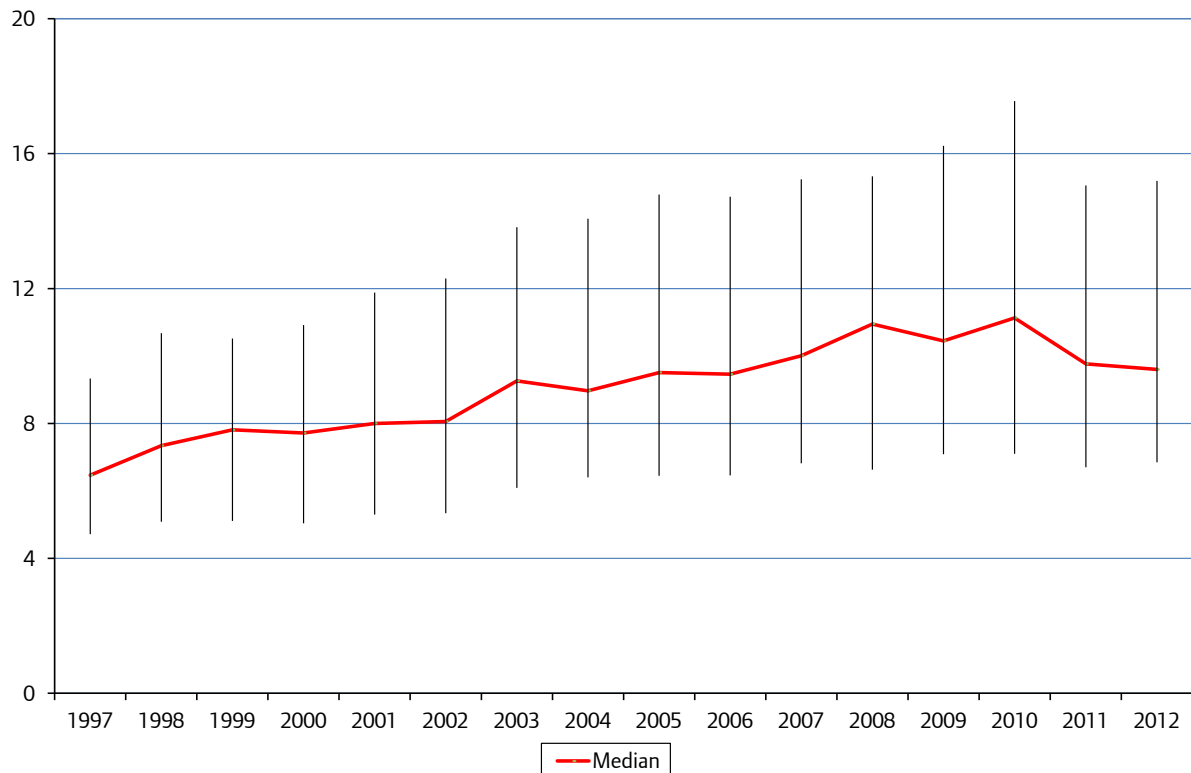
Chart 18: Retail sector, London: Spread of hourly earnings (£, excluding overtime) from 20th to 80th percentiles



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 19 shows the spread of hourly earnings in the social care sector from the 20th to the 80th percentile. Like the retail sector, the spread has increased over time. In 1997 it was £4.61 but by 2010 it had risen to £10.46 (it then narrowed again, to £8.34 in 2012). But again in proportional terms the spread has been fairly stable. In 1997 the earnings corresponding to the 80th percentile of the distribution was twice the earnings corresponding to the 20th percentile. By 2012 the multiple had risen only slightly to 2.2 times.

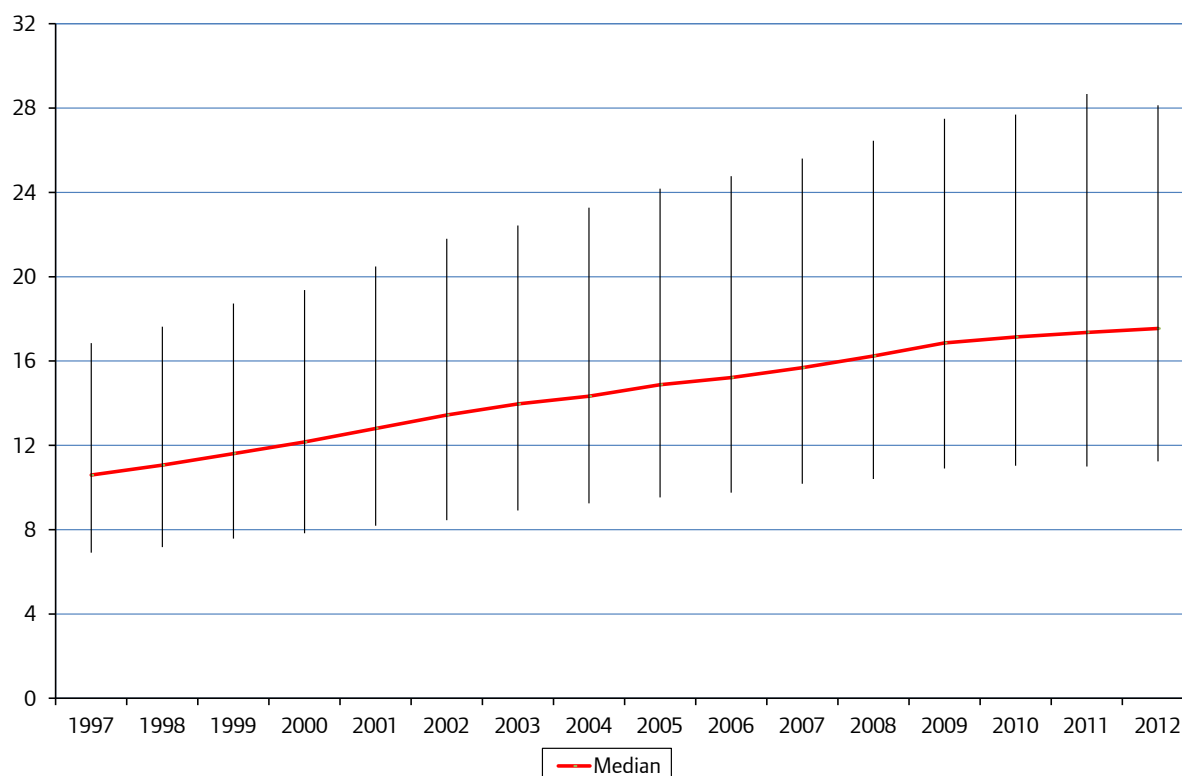
Chart 19: Social care sector, London: Spread of hourly earnings (£, excluding overtime) from 20th to 80th percentiles



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Again to put the ‘low pay’ sectors into context, we look at pay dispersion of the middle three fifths of the ASHE sample in all other sectors (the non-‘low pay’ sectors) (Chart 20). Here we find a similar result to that which we noted for the retail and social care sectors – that is, an increase in the spread of hourly earnings between the 20th and the 80th percentile in money terms but stability in proportional terms. In 1997 the spread of hourly earnings from the 20th to the 80th percentile was £9.94. By 2012 this had risen to £16.89. But in proportional terms, this was only a rise from a multiple of 2.4 to one of 2.5.

Chart 20: All other sectors, London: Spread of hourly earnings (£, excluding overtime) from 20th to 80th percentiles



Source: ONS Annual Survey of Hours and Earnings (ASHE), employees aged 22 and over including employees who were paid less than adult rates of pay.

Another factor in the 'low pay' sectors is a prevalence of categories of employees who tend to be lower paid, eg, part-time workers, female workers and young and old workers.

Using data for the UK overall, in the retail sector, 53 per cent of employees are female versus 49 per cent in all sectors and 39 per cent of employees are part-time versus 27 per cent in all London sectors. 26 per cent of employees are aged 22-29 versus 18 per cent in all sectors.

In the social care sector, 78 per cent of employees are female versus 49 per cent in all sectors and 41 per cent of employees are part-time versus 27 per cent in all sectors. Eleven per cent of employees are over 60 versus 8 per cent in all sectors.

In the accommodation and food service sectors, 35 per cent of employees are aged 22-29 versus 18 per cent in all sectors. 42 per cent of employees are part-time versus 27 per cent in all sectors. 51 per cent of employees are female versus 49 per cent in all sectors.

How persistent is low pay in London’s ‘low pay’ sectors?

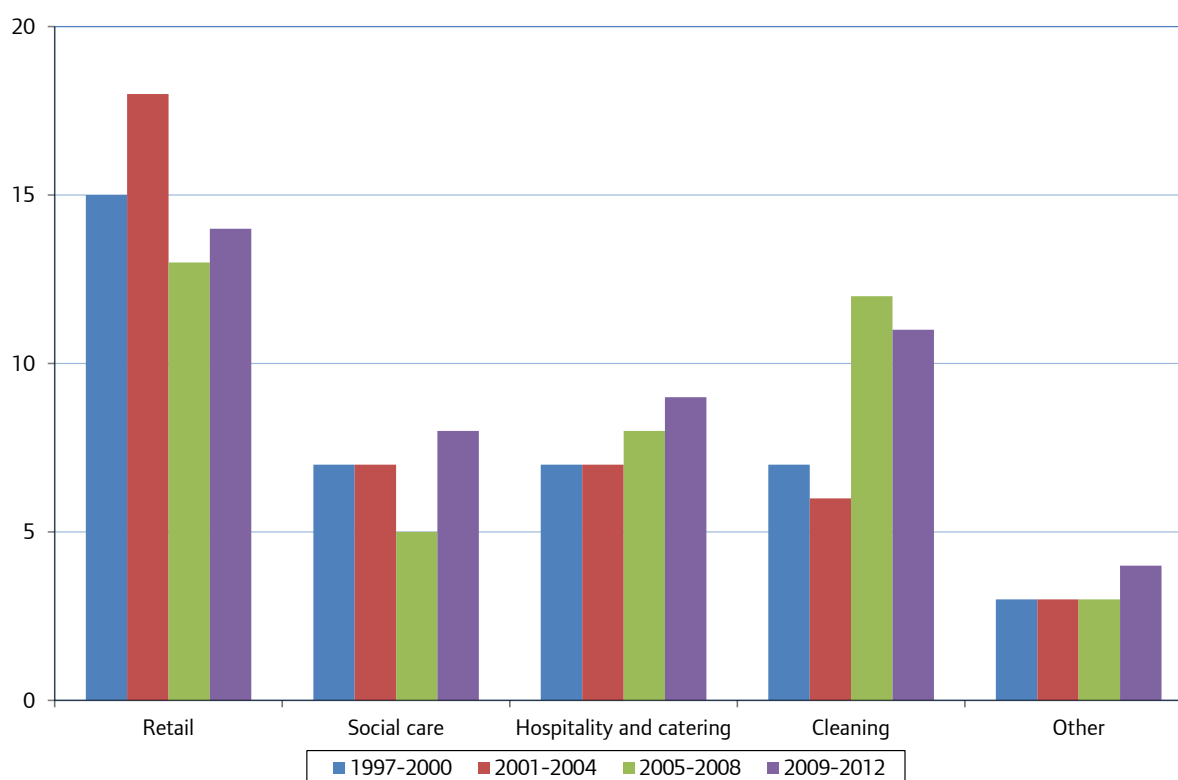
As was noted in the methodology section, the ASHE dataset importantly includes panel data – that is, data on the same identified individuals over time. This enables us to assess the ‘persistence’ of low pay and to compare the numbers in low pay for a single year with the numbers remaining in low pay for a number of successive years.

This panel data was supplied by the ONS for four four-year periods: 1997-2000, 2001-2004, 2005-2008 and 2009-2012. Respondents were also grouped by age (22-29; 30-39; 40-49; 50-59; 60+). Respondents were identified as being ‘persistently’ in low pay on two alternative definitions. First, if within a four-year period they were on low pay for at least three consecutive years; second, if within a four-year period they were on low pay for at least three years (whether or not consecutive). However the first definition was not in the event used in the analysis (because specifying three consecutive years did not materially change the results as compared with three years which were not necessarily consecutive).

Several features of the data stand out.

The first is that although low pay has not been as prevalent in the retail sector in London as in the cleaning or hospitality and catering sectors (see Chart 9), a higher share of employees in the retail sector has been in persistent ‘low pay’ as compared with the other three ‘low pay’ sectors. In all four four-year periods, this held true, with the proportion in retail in persistent low pay varying between 13 and 18 per cent (Chart 21). This compares, for example, with social care where the proportion in persistent low pay varied between 5 and 8 per cent.

Chart 21: % of employees on low pay in London for at least three years of the four year period

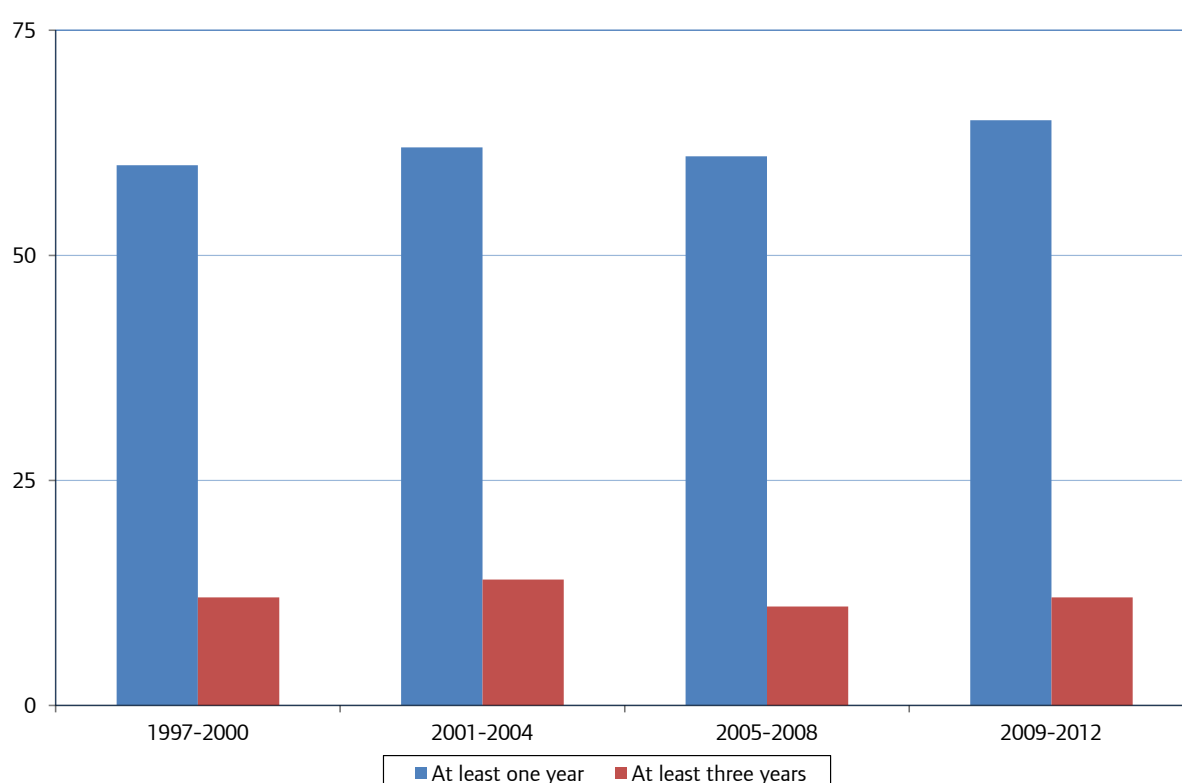


Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

The reason for this is hard to identify. It could, for example, be because employees in the retail sector move jobs less often than those in other sectors²³. If an employee in – say – the social care sector only spends two years in a low pay job and then moves either out of London or into another sector in London (even if into a low pay job), s/he is not counted as ‘low paid’ for at least three years, in this analysis.

The second feature of the data is the much smaller proportions in all sectors on persistent low pay than on low pay for just one year in any four-year period (Chart 22). For example in the period 2009-12, 65 per cent of those who worked in a ‘low pay’ sector were ‘low paid’ for at least one year. But only 12 per cent of those who worked in a ‘low pay’ sector were ‘low paid’ for at least three years.

Chart 22: % of employees in all four ‘low pay’ sectors in London on low pay for at least one and at least three years



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

Drawing general conclusions from this sample requires caution. As was noted in the Methodology section, the panel data results are unweighted, so the ratio of the numbers in ‘low pay’ sectors in the sample to the sample total is unlikely to be the same as the ratio in the population overall. In addition at least some of the difference between the one-year and three-year incidence of low pay – shown in Chart 22 – may not reflect moves into non-low paid jobs.

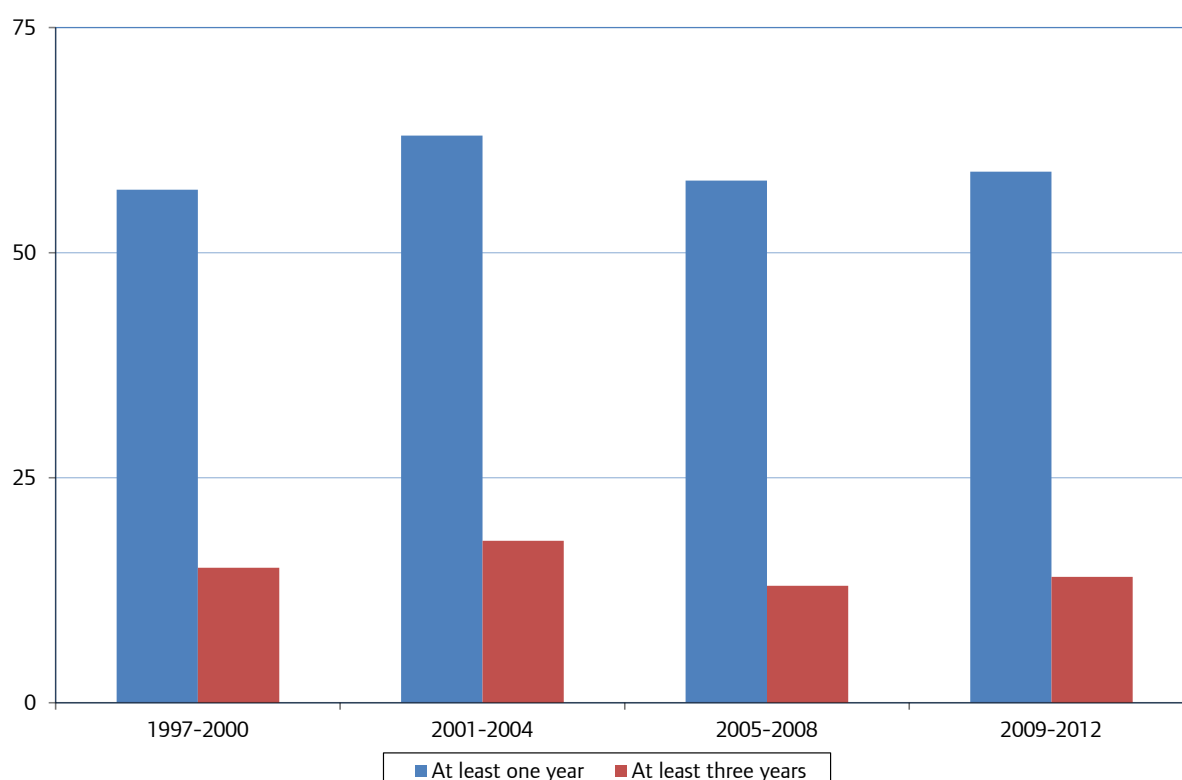
²³ There is some evidence that low-paid workers who change jobs see far greater wage progression than those who do not. See for example “Work in progress – low pay and progression and the UK”, Centre for Economic and Social Inclusion, 2013

It could also reflect moves into unemployment or economic inactivity, moves into low-paid jobs outside London or moves into low-paid jobs in other sectors in London (either to another of the four 'low pay sectors' or to a low-paid job in a non-'low pay' sector).

Nevertheless the difference between the one-year and three-year incidence of low pay shown in Chart 22 is encouragingly large.

The decline in the proportions on low pay when the focus moves from one year to three years holds true even in the retail sector (see Chart 23) where persistence of low pay has been the highest of the 'low pay' sectors (Chart 21)²⁴.

Chart 23: % of employees in retail sector in London on low pay for at least one and at least three years

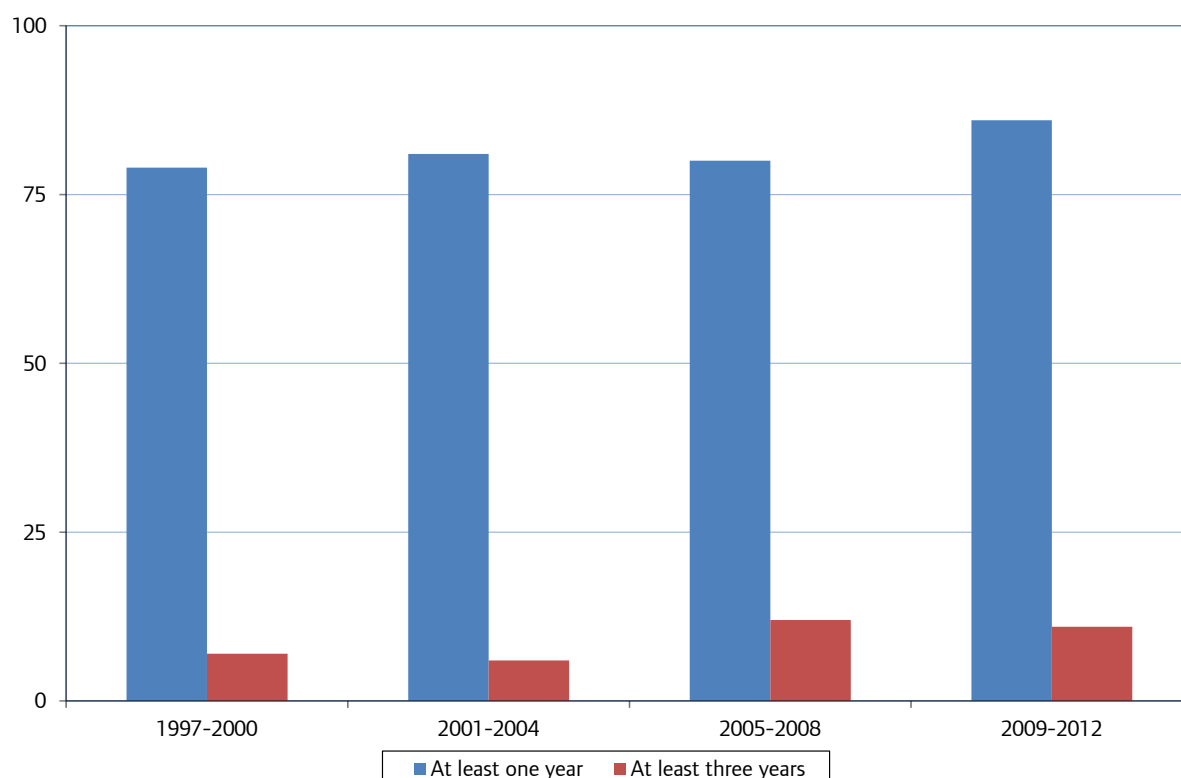


Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

Of the four 'low pay' sectors, the decline is most striking in the cleaning sector (see Chart 24) where the proportion in 'low pay' drops from around 80 per cent for employees in low pay for at least one year to 6-12 per cent for employees in low pay for at least three years.

²⁴ The retail sector is the largest (by numbers of employees) of the four 'low pay' sectors in London but it accounts for less than half of the jobs in the total of these four sectors in London.

Chart 24: % of employees in cleaning sector in London on low pay for at least one and at least three years



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

The third feature of the data, however, is the significant proportion of those who have been in low pay for three consecutive years and continue to be in low pay for a fourth year. Interestingly, a high proportion of those who were in low pay for three consecutive years also leave the scope of the survey in the fourth year, although it is not possible to determine the specific reasons. As previously noted, people can leave the scope of the analysis for a number of reasons: people who become self-employed, unemployed, economically inactive or who leave London (or those who do not respond to the survey) leave the scope of the analysis.

Table 3: Fourth year for those on low pay in ‘low pay’ sectors in London

| Additional analysis for those persistently on low pay (3+ consecutive years) in low pay industry sectors in London | | | | |
|--|-----------|-----------|-----------|-----------|
| Description | 1997-2000 | 2001-2004 | 2005-2008 | 2009-2012 |
| All four years on low pay in low pay industry sectors in London | 48 | 53 | 46 | 49 |
| First three consecutive years on low pay in low pay industry sectors in London, and: | | | | |
| Fourth year on low pay in London in another sector | 2 | 1 | .. | 1 |
| Fourth year on low pay elsewhere in UK (any sector) | 2 | 5 | 1 | 1 |
| Fourth year on high pay in London (any sector) | 2 | 2 | 4 | 3 |
| Fourth year on high pay elsewhere in UK (any sector) | .. | .. | .. | 0 |
| Not in scope of survey/missing information in fourth year | 17 | 18 | 20 | 18 |
| Last three consecutive years on low pay in low pay industry sectors in London, and: | | | | |
| First year on low pay in London in another sector | 1 | .. | 1 | 1 |
| First year on low pay elsewhere in UK (any sector) | 10 | 1 | 3 | 1 |
| First year on high pay in London (any sector) | 3 | 3 | 2 | 1 |
| First year on high pay elsewhere in UK (any sector) | .. | .. | .. | 0 |
| Not in scope of survey/missing information in first year | 17 | 16 | 22 | 26 |

Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset.

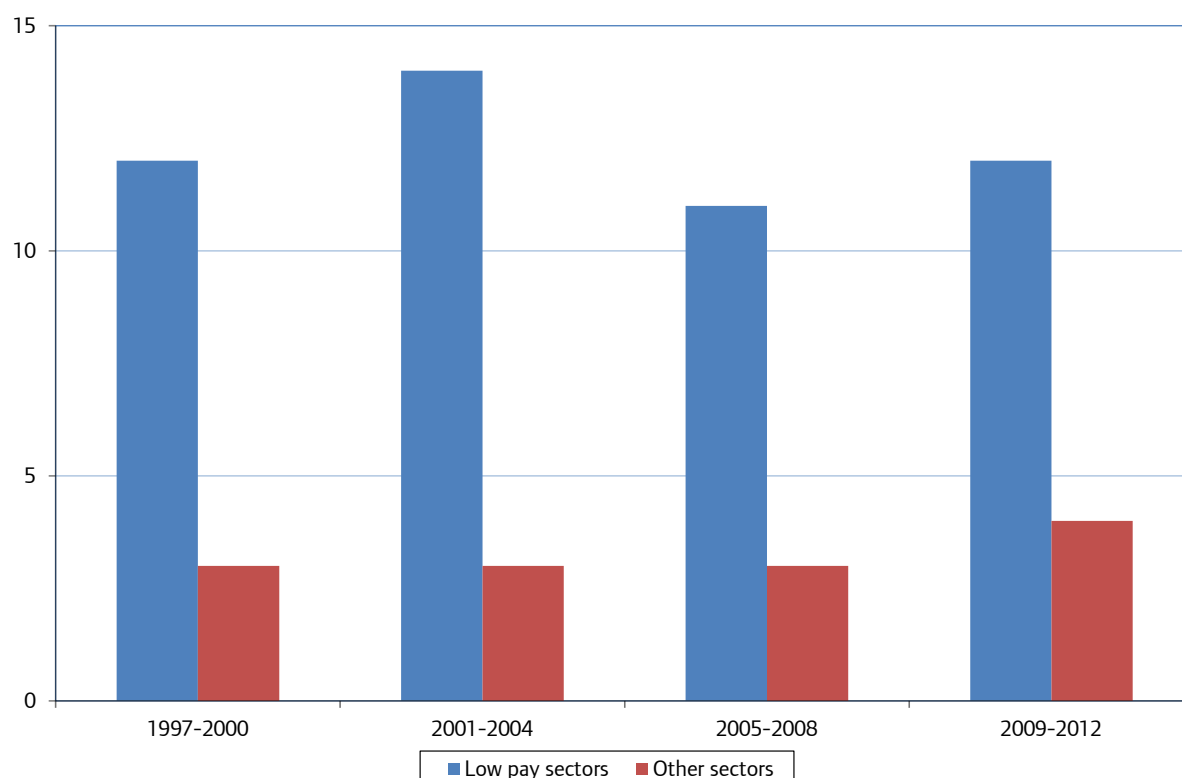
Notes:

1. 'Not in scope of survey' indicates that the person is not recorded as being an employee at this time, e.g. because they are unemployed or self-employed or (in the case of the fourth year) have died. 'Missing information' comprises employees who cannot be classified because of non-response or because specific variables required for the analysis are missing.
2. ".." indicates that results have been suppressed to avoid disclosure.
3. Percentages may not sum to 100 due to rounding and/or suppression.

Table 3 shows that for those in low pay for three consecutive years in ‘low pay’ sectors in London, the chance of remaining in low pay for a fourth year is around – or over – 50 per cent. The proportion of those in ‘low pay’ in the first three years that moved into higher pay in the fourth year was between 2 and 4 per cent (note that in three of the four year periods the proportion moving to higher pay elsewhere in the UK was suppressed). The proportion of those in ‘low pay’ in the last three years that came from higher pay in the first year was between 1 and 3 per cent (again in three of the four year periods the proportion moving from higher pay elsewhere in the UK was suppressed). Even though year four information for around a fifth of this sample is unavailable, these figures are still striking. Taken with the result above, a tentative conclusion is that the longer an employee spends in low pay, the less likely is s/he to move into higher pay.

The fourth feature of the data, however, is the considerably higher incidence of low pay persistence in ‘low pay’ sectors compared with other sectors (see Chart 25).

Chart 25: % of employees in low pay and other sectors in London on low pay for at least three years



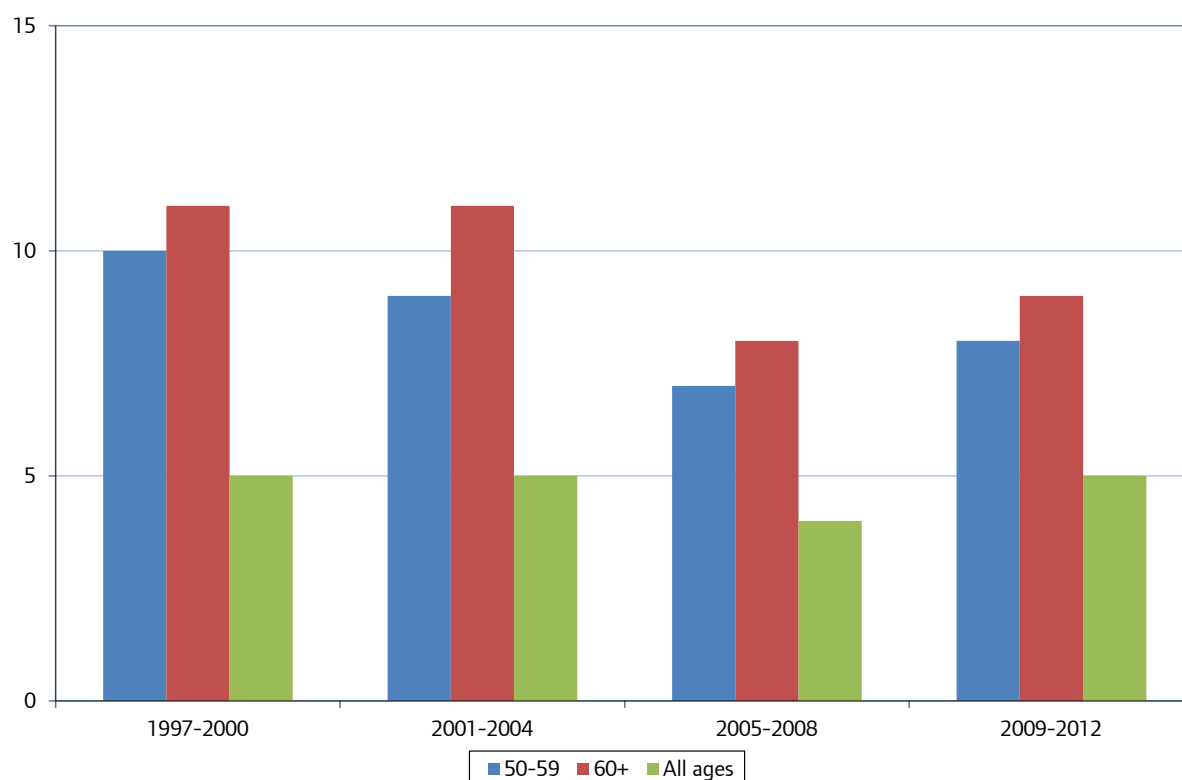
Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

Employees in the retail, social care, hospitality or cleaning sectors are around four times as likely to be in persistently low pay than employees in other sectors²⁵.

The **fifth feature** of the panel data is that older employees are more likely to be in persistent low pay than younger employees. This is shown in Chart 26. On the data for all sectors, employees aged over 50 are around twice more likely to be in persistent low pay than the average. There may be several reasons for this: it may be reflective of a shift to part-time work, which, as discussed, is lower paid, as people approach retirement. Ageism in the jobs market could be another reason. Another could be that older people are less likely than younger people to move out of London – or to move jobs – in order to boost their income.

²⁵ It should be noted that the panel sample is unweighted, ie, it is not adjusted to reflect the sectoral weights in London employment. However ASHE is a 1 per cent sample which is statistically large enough to resemble the population with a reasonable degree of confidence.

Chart 26: % of employees by age in London on low pay for at least three years (all sectors)

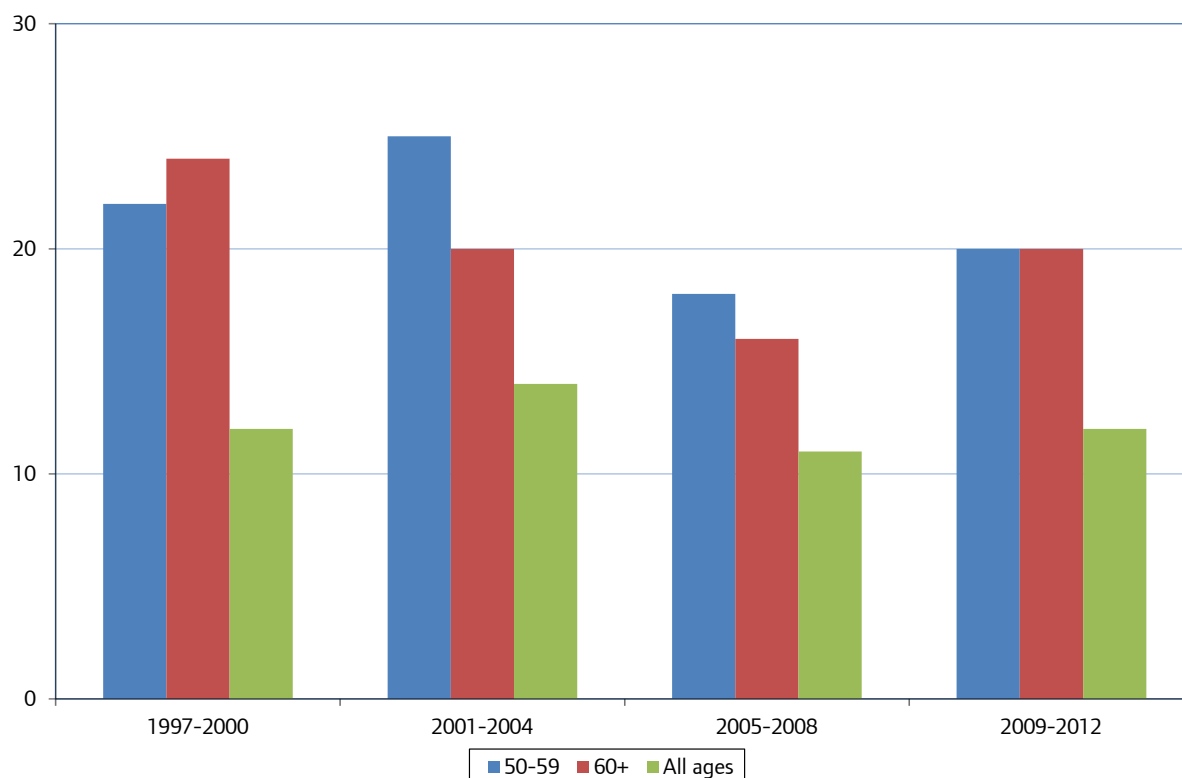


Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 26 includes all sectors. Chart 27 includes just the ‘low pay’ sectors. Comparing it with Chart 26, it can be seen that the difference between pay for older people and pay for all ages is somewhat greater in the ‘low pay’ sectors as compared with all sectors, but that the difference is pronounced for all sectors too. It appears, therefore, that the problem of low pay for older workers is a general problem and not one confined to ‘low pay’ sectors. With progressively fewer people receiving defined benefit pensions²⁶ (which are generally more generous than defined contribution pensions) and with the state pension age rising progressively, low pay for the elderly may become a more urgent policy issue in time.

²⁶ The Turner Commission (2004) estimated that no more than 1.6-1.8 million private sector employees would be active members of defined benefit schemes in 2024, versus about 4.6 million in 2000. The Commission added “This figure [1.6-1.8 million] could be significantly lower”.

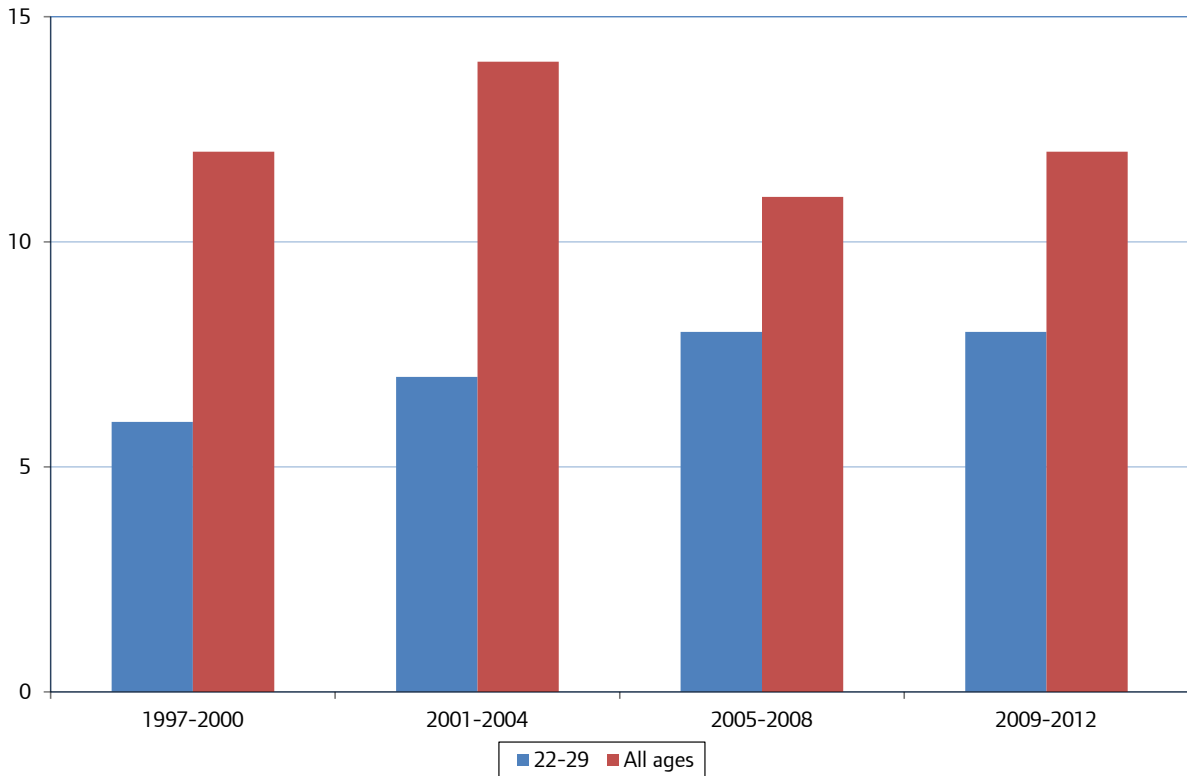
Chart 27: % of employees by age in London on low pay for at least three years ('low pay' sectors)



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

The **sixth feature** of the panel data is that employees aged 22-29 are less likely to be in persistent low pay than the average, when looking across 'low pay' sectors. This is shown in Chart 28. Note that the gap narrowed slightly in the 2005-12 period as compared with the earlier period. This could possibly reflect the 2008 recession and recovery period which made it more difficult for those in their 20s – traditionally more mobile than older workers – to move jobs in order to boost their pay.

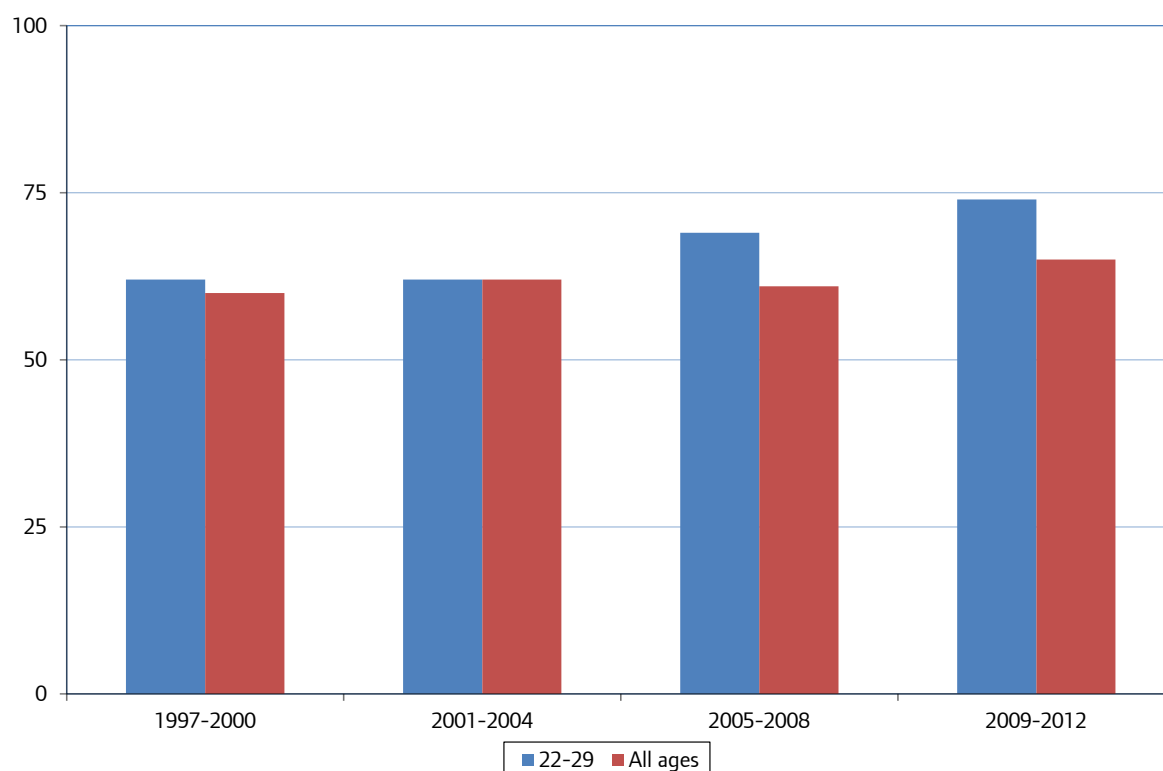
Chart 28: % of employees by age in London on low pay for at least three years ('low pay' sectors)



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

But by contrast, employees in this youngest age group (22-29) in the 'low pay' sectors have become slightly more likely than the average to fall into low pay for one (or possibly two) years, see Chart 29.

Chart 29: % of employees by age in London on low pay for at least one year ('low pay' sectors)

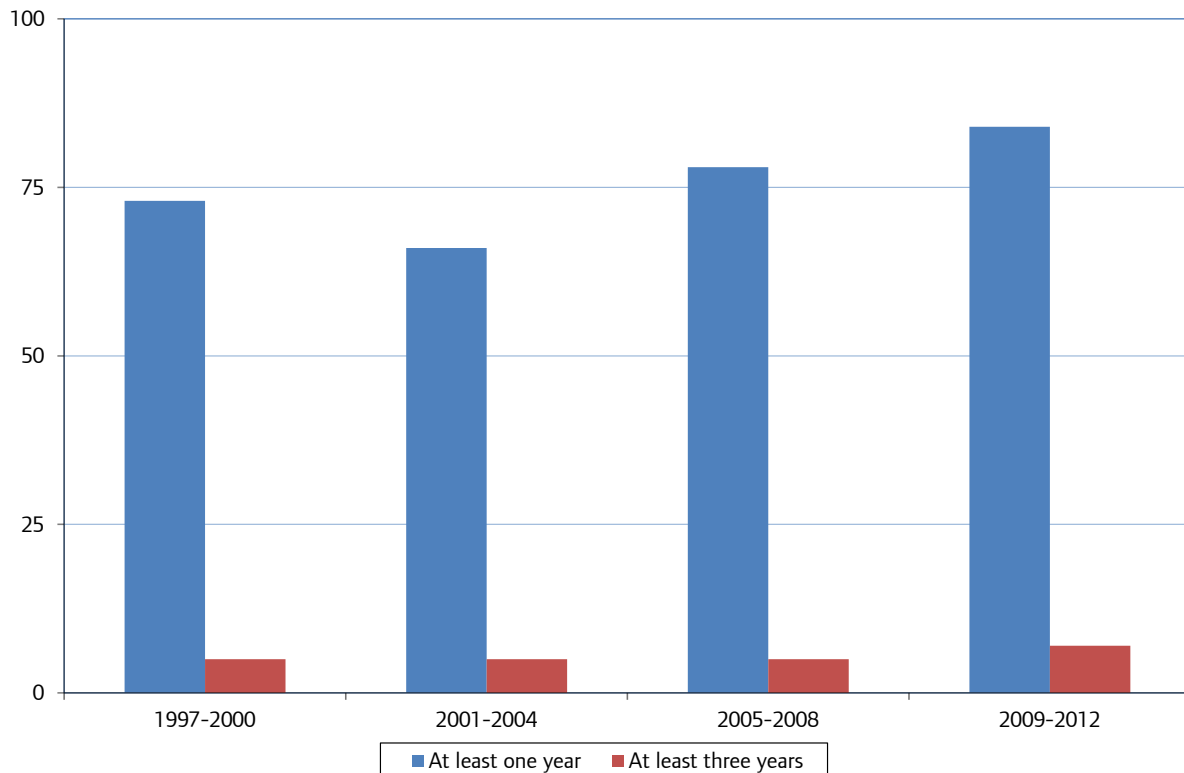


Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

This possibly is evidence that young employees are more likely to (or have more need to) use low paid jobs as a 'stepping stone' to their career of choice (for more on this, see below). But Chart 28 suggests they may not need to spend as many as three years upon this 'stepping stone'.

The divergence between one-year and three-year low pay duration for the youngest age group of employees is particularly striking in the hospitality and catering sector, see Chart 30.

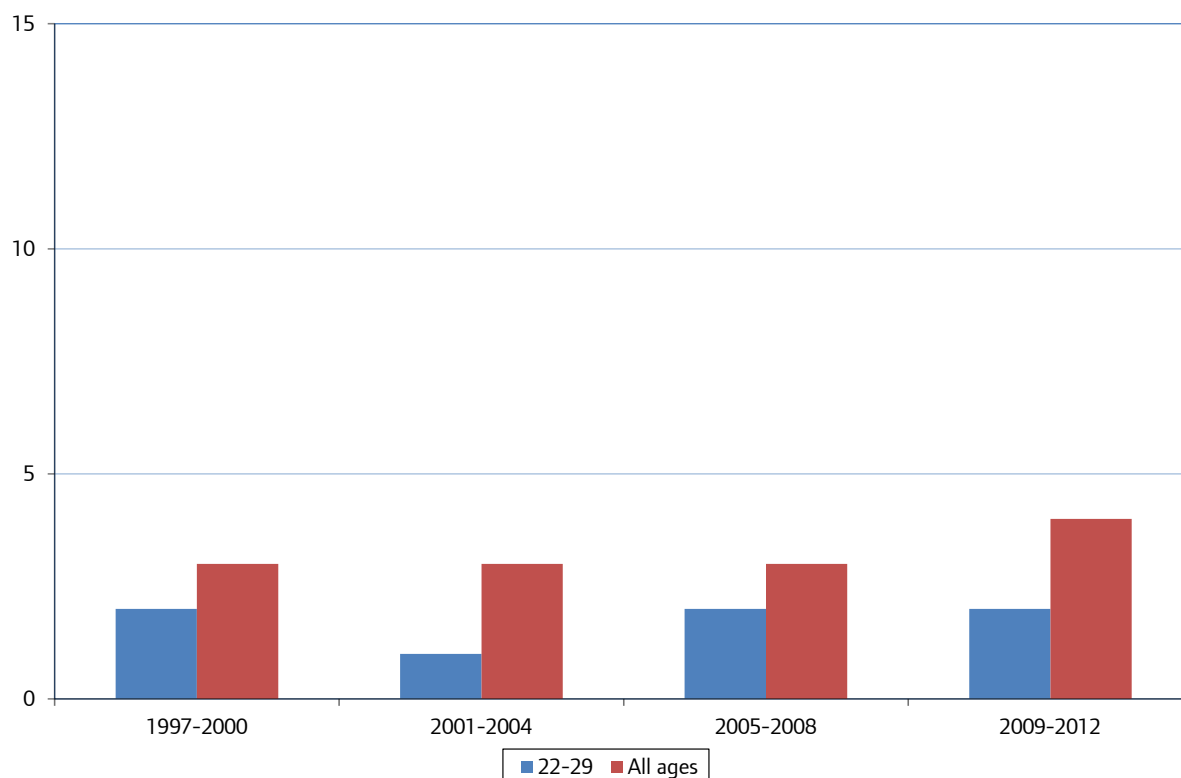
Chart 30: % of employees age 22-29 in London on low pay for at least one year and at least three years (hospitality and catering sector)



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

Chart 31 shows the same as Chart 28 (and is drawn on the same scale) except that it covers non-'low pay' sectors (Chart 28 is for 'low pay' sectors). It can be seen that although younger employees have been less likely than the average to be in low pay for at least three years in any four year period, the gap is much smaller than in Chart 28.

Chart 31: % of employees by age in London on low pay for at least three years (non-‘low pay’ sectors)



Source: ONS Annual Survey of Hours and Earnings (ASHE), panel dataset, employees aged 22 and over including employees who were paid less than adult rates of pay.

There are a number of possible reasons as to why younger workers are less likely than the average worker to be in persistent low pay in the ‘low pay’ sectors (and – albeit to a much lesser extent – in the non-‘low pay’ sectors).

The first is that young workers tend to be mobile and therefore to be more likely to seek and take a higher paid job that involves a change of residence. The second is that young workers commonly accept a low paid job in order to gain work experience and then they move to a higher paid job after a short time. The third is that in their early years in a first job, the pay of young workers tends to be low in relation to older workers at the same employer, whilst training takes place. In later years, their pay rises.

In the hospitality and catering sector – additionally – temporary jobs (eg, waiting on tables or bar staff) are commonly taken by young people while they search for their preferred long-term career choice – or by young people who are part-time or full-time students. Hence the divergence in Chart 30 between short-term and long-term low pay for this age group.

Research suggests the possibility that a low paid job might serve as a ‘stepping-stone’ on the path to a better paid job elsewhere. The likelihood of this depends on a number of factors including the economic cycle, the motivation of the employee, the new employer and the job, as well as other factors bearing on the employee’s productivity such as health issues and caring responsibilities. In the UK many employees do not see temporary jobs, for example, as

'stepping-stones'²⁷. However evidence from other countries suggests that low-paid jobs can lead to better paid work. For example a Danish study of within- and cross-firm job change found that employees who moved to another firm (usually in a related sector) were more likely to achieve a short-run increase in earnings than those that do not²⁸. A recent study by the Centre for Economic and Social Inclusion found that low-paid workers who change jobs experience far greater wage rises than those who do not²⁹. However changing jobs is risky - for example, someone who has been in a job for more than a year has more employment rights than someone in a job for less than a year. It may also mean less time to dedicate to family or caring responsibilities. This could be another factor explaining why younger employees are less likely to be in persistent low pay than the average worker. Younger employees are less likely to have ongoing financial responsibilities (such as a mortgage) and so are less risk averse than older employees.

²⁷ Booth, A., Francesconi, M. and Frank, J. (2002) 'Temporary jobs: stepping stones or dead ends?' *The Economic Journal*, 112, cited in 'Work in Progress', Centre for Economic and Social Inclusion, October 2013

²⁸ Frederickson, A., Halliday, T. and Koch, A. (2012) *Within and Cross-firm Mobility and Earnings Growth*, Institute for the Study of Labour (IZA) Discussion Paper No.5163, cited in 'Work in Progress', Centre for Economic and Social Inclusion, *op cit*

²⁹ 'Work in Progress', Centre for Economic and Social Inclusion, *op cit*

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