The Living Wage Dividend:

maximising the local economic benefits of paying a living wage

Paul Hunter

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The research for this report was undertaken by Paul Hunter, deputy director at the Smith Institute. For more information, please email: paul.hunter@smith-institute.org.uk

Living Wage Foundation

The real Living Wage is the only rate calculated according to what people need to make ends meet. It provides a voluntary benchmark for employers that choose to take a stand by ensuring their staff earn a wage that meets the costs and pressures they face in their everyday lives.

The UK Living Wage is currently £9.50 per hour. There is a separate London Living Wage rate of £10.85 per hour to reflect the higher costs of transport, childcare and housing in the capital. These figures are calculated annually by the Resolution Foundation and overseen by the Living Wage Commission, based on the best available evidence on living standards in London and the UK.

The Living Wage Foundation is the organisation at the heart of the movement of businesses, organisations and individuals who campaign for the simple idea that everyone deserves a wage that meets their everyday needs. We recognise and celebrate the leadership shown by responsible employers who voluntarily choose to go further and pay a real Living Wage based on the cost of living, not just the government minimum. There are currently over 8,000 accredited employers.

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This report represents the views of the author.

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The economic fall out from Covid has been substantial. However, it has not been evenly felt. This is especially true for the labour market with low paid workers more likely to see their hours and pay fall and more likely to be made unemployed or furloughed. Indeed, the pandemic has placed the spotlight on low pay and in-work poverty. Recent polling for the TUC, for example, showed how low-income workers have borne the brunt of the pandemic with little or no option to work from home and reduced living standards.[1]

Low paid workers remain at the highest risk of contracting the virus at work and many do not have decent sick pay. Yet, it has been the low paid – particularly in healthcare and other essential services - that have kept the economy moving. This unfairness has not gone unnoticed. As the furlough scheme and other Covid protection measures are relaxed, local and national politicians from all parties are calling for a recovery that is both fair and sustainable. That agenda for 'levelling up' and 'building back better' must have the real Living Wage and tackling insecure work at its heart.

Living Wages have been backed by local and national politicians as a central part of such efforts to build a stronger, fairer economy – including in the recent mayoral elections. The Living Wage is a voluntary pay rate independently calculated and based on meeting people's everyday needs (and is currently £9.50 across the UK and £10.85 in London).[2] Over 20% of the workforce are currently paid below the real Living Wage. Those paid below the Living Wage are also more likely to be women, work part time, and be employed in the leisure and retail sectors. As such The Living Wage makes a significant and lasting difference to low paid workers, helps combat poverty and narrow the gender pay gap. It also creates benefits for employers. According to the Living Wage Foundation, "all of our Living Wage Employers have recognised that paying the real Living Wage has improved their resilience to the crisis, and bolstered their ability to emerge from it in a position of strength."

Despite the pandemic the Living Wage has continued to expand. The number of accredited employers has increased from 2,000 in 2016 to over 8,200 today, including over 3,000 since the start of the pandemic last year. Together this put over £1.5bn back into the pockets of over 275,000 low-paid workers.[3] And offering tangible productivity and other benefits.[4] In the past few years the movement has also diversified into new areas, including 'Living Wage Places' – launched in 2019 to create cross-sectoral action groups of local Living Wage employers working together to expand take-up of the Living Wage in targeted locations.[5]

Increasing coverage of the Living Wage can open up wider benefits for local economies. Before the pandemic, the Living Wage Foundation, for example, have been working closely with councils and local employers on ways of increasing the take up of the Living Wage. As a result of these consultations, the Living Wage is now present in many local authority economic development strategies.

This report seeks to take forward the work of the Foundation's 'Living Wage Places' initiative, focusing on how to maximise the benefits of the Living Wage in towns, cities and city-regions across the UK. Using evidence-based assumptions, the report examines and quantifies how much individuals gain, how that wage uplift is paid for and what the local economic impact is likely to be based on moving 25% of low paid workers up to the Living Wage.

Headline findings

- Nationally the dividend of moving a quarter of low paid workers up to the Living Wage would total £1.5 billion.
- At a city region level the dividend would, for example, be: £29m in the Sheffield City region, £53m in West Midlands Combined Authority, £28m in Liverpool City Region, £30m in Glasgow City Region, £22m in North East Combined Authority, £13m in Tees Valley, £18m in North of Tyne, £20m in West of England Combined Authority, £31m in Cambridgeshire and Peterborough, £56m in Greater Manchester, £55m in West Yorkshire, £30m Cardiff City Region, and £328m in London. Across these city regions the annual Living Wage dividend would be over £700m.
- At a town and city level there are also significant dividends: Cardiff, for instance, committed to become a Living Wage city in 2019. Since then, 3,428 workers have moved onto the Living Wage in Cardiff, benefiting the local economy by £2.5m. Including those employees already on the Living Wage the total annual benefit to the local economy is around £5.8m.
- For towns, if a quarter of low paid workers received a pay rise to the Living Wage then local economies would benefit: Bury's economy by £2.4m, Ipswich's by £2.8m, Blackpool's by £3.2m, and Dudley's by £5m.
- At the individual employee level the annual net benefits of a Living Wage on average are £950 per employee in London and £520 per employee in the rest of the UK. Increasing employees pay to the Living Wage would result in an average pay rise of 10% in London and 6% in the rest of the UK.

The local economic impact

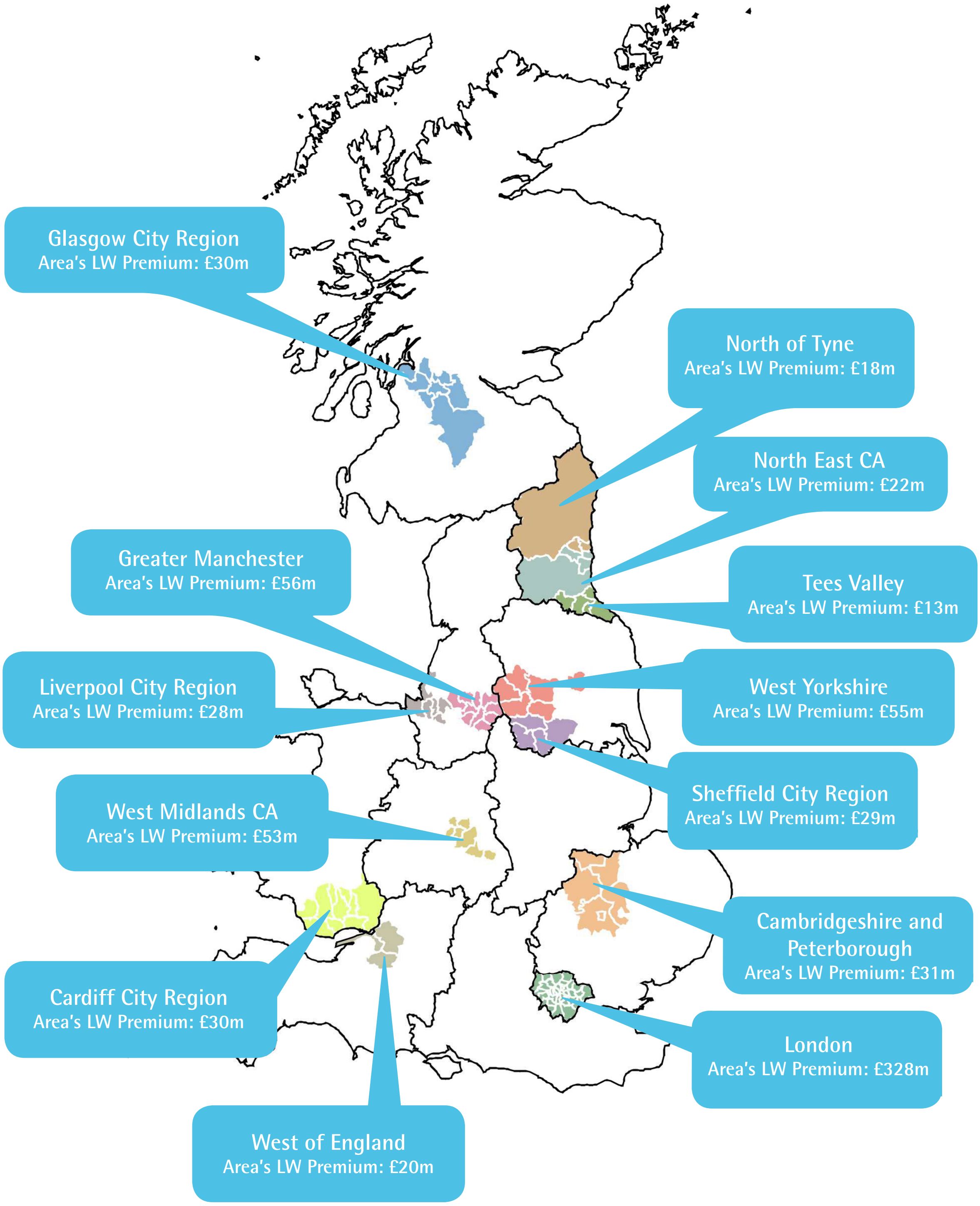
- The local economic impact will be dependent on how the pay rise is met. Evidence from wage floors research is used to estimate this impact for a voluntary increase in pay to the Living Wage for a quarter of low paid employees.

- Concerns about loss of hours or jobs resulting from minimum wages have proven to be overplayed. Nevertheless, there is some evidence of small disemployment (reduced hours or employment) effects as there are of small price increases. Evidence also suggests that the presence of minimum wages are in part met by reduced profits.
- There is also a growing body of evidence that wage floors are productivity enhancing, helping increase employee effort, reduce absences and employee turnover, and leading to better organisational practices.
- Not all of the wage rises will accrue to the worker due to tax payments and benefit reductions. The average marginal deduction rate – the amount going to the Treasury - is calculated to be 37%. However, even after tax and benefits, households on the lowest incomes benefit see the biggest proportionate increase in incomes from being paid the Living Wage.
- Not all of the impact of higher wages (or lower profits) will be paid locally with leakages (from local economies) expected, which are larger at a smaller scale and also for London local authorities.
- Higher wages are expected to support higher local spending with multiplier impacts larger now as we are in a recession.

Calculating Living Wage dividend

- The analysis in the report to calculate the Living Wage dividend uses data from the Labour Force Survey,[6] Family Resources Survey[7] and Annual Survey of Hours and Earnings. Using these recognised sources along with the assumptions about how it will be for the report estimates a Living Wage dividend in places across the UK.
- The report's assumptions suggest that increased pay to the Living Wage will deliver an annual Living Wage dividend through increased spending and productivity to places of around £700 per person in a London local authority, £730 per person in a local authority in the rest of the UK, and £910 per person in a nation or region outside London. The estimate for London as a whole is £1,520 per person (owing to a larger wage uplift without the larger leakages seen at a local authority level).

Annual Local Living Wage Dividend by City Region/Combined Authorities in UK



Introduction

Introduction

The Covid pandemic has exposed the stark inequalities that have characterised the UK labour market. Studies have consistently shown that those in low paid work were badly impacted by Covid and faced greater health risks.[8] Those in low paid employment were also more likely to be affected financially. According to the Resolution Foundation, low paid workers were three times more likely than higher paid workers to experience a negative impact on their work. They were more likely to have lost hours and pay and be made unemployed or furloughed.[9]

The pandemic not only showed the inequalities and insecurities of life on low pay. It also demonstrated how much society relies on those undertaking work for very low wages. This spotlight on low paid work and workers has created interest in how, as we rebuild from the pandemic, we do so fairly and sustainably. This includes ensuring that more people – in all parts of the country - are paid a wage that is enough for them to live on – a real Living Wage.

As part of the government's 'levelling-up' agenda, there has been a growing interest in ensuring that the problems of low pay and insecure work are tackled within communities and that pay rates are improved at a geographical scale by place. Securing enough of a wage uplift among accredited local Living Wage employers to create wider economic benefits could be a way of doing so.

The real Living Wage
The real Living Wage is a voluntary pay rate which is independently calculated, based on what people need to get by. The campaign began when the National Minimum Wage stood at just £3.70 per hour with the objective of persuading employers to pay a wage that supported a decent standard of living.

Organisations sign up to become Living Wage employers (and accredited by the Living Wage Foundation) if all staff, including those performing outsourced functions, are paid the required rate. Research has shown that Living Wage employers believe that paying a decent wage, as well as being the right thing to do, offers real business benefits. Since the start of the campaign, over 275,000 employees have directly received a pay rise and over 8,200 organisations are Living Wage accredited.

Current rates per hour are £10.85 per hour in London and £9.50 per hour in the rest of the country.[10] The rates are calculated annually by the Resolution Foundation and overseen by the Living Wage Commission, based on the best available evidence about living standards in London and the UK. The basket of goods that the Living Wage is based on draws on the Minimum Income Standard, which is based on what members of the public think you need for a minimum acceptable standard of living in the UK. It is carried out by Loughborough University's Centre for Research in Social Policy (CRSP)

The Living Wage is higher than the national minimum wage, which for those 23 and over was rebranded as the National Living Wage, and currently stands at £8.91 per hour for over 23s. The national minimum wage is £8.36 per hour for those aged 20 to 21 and £6.56 per hour for those aged £6.56.

This interest in gaining wider economic benefits was evident in the run up to the 2021 mayoral election. Both re-elected mayors, Andy Burnham and Sadiq Khan, made manifesto commitments for Greater Manchester and London, respectively, to become Living Wage City-Regions.[11]

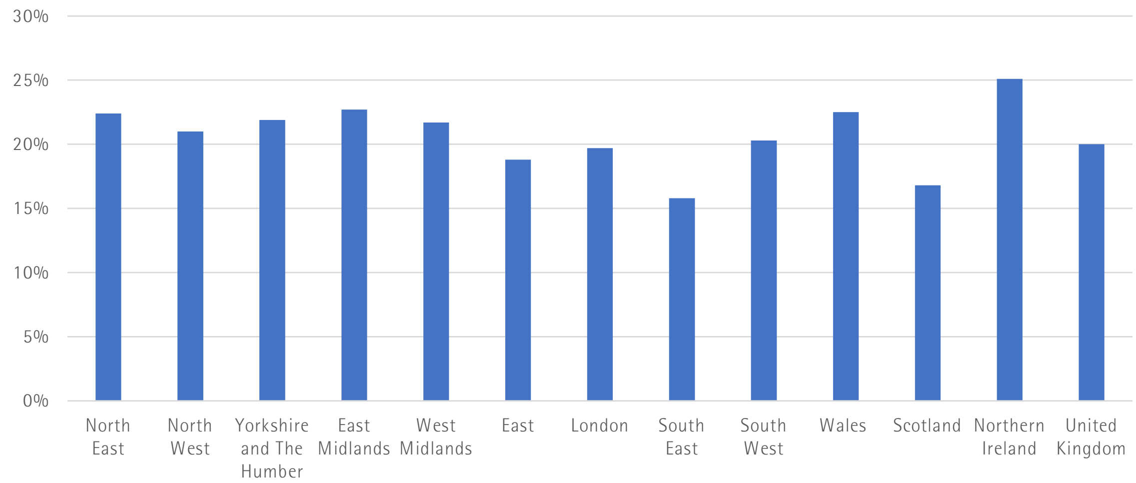
Even prior to the pandemic, Living Wages were increasingly viewed as a way of supporting local economic development objectives. Indeed, the Living Wage is now an important feature of local plans of a growing number of councils and city-regions, with some cities – such as Cardiff and Dundee – recently accredited by the Living Wage Foundation as 'Making Living Wage Places'.

Within local economic strategies there is also now frequent reference to measures to support 'anchor' institutions (like hospitals and colleges) and employers more broadly to pay the Living Wage. It is also used as a specific metric of success in creating fairer local economies and tackling poverty.

This is perhaps not surprising. Paying the Living Wage can have a significant impact on the household incomes of low paid workers. Survey work by the Living Wage Foundation has captured the costs of low pay on people's lives. Over one in three paid below the Living Wage stated they had skipped meals regularly for financial reasons and over four in ten stated that they had fallen behind on household bills.[12] Conversely, being paid the Living Wage has a positive effect on people's standard of living, well-being, and gives greater financial resilience.[13]

Despite the benefits, one in five employees are paid below the Living Wage, and many are living in towns and cities which have suffered from the pandemic. Those paid below the Living Wage are more likely to be women, work part time, and be employed in the leisure and retail sectors.[14] Rates differ across the country, but in all parts of the UK, low pay now remains a prominent feature of the labour market.

Proportion of employees paid below the Living Wage, 2020



Source: ONS, Annual Survey of Hours and Earnings (ASHE) - Estimates of the number and proportion of employee jobs with hourly pay below the living wage, by work geography, local authority and parliamentary constituency, UK, April 2019 and April 2020

Living Wage and local economies

The relevance of Living Wages matters not only to the individual worker, but also at scale as a force for tackling low pay and creating fairer local economies. It could, for example, increase the level of economic growth by creating greater demand for goods and services.

At a firm level, increasing pay meanwhile has the potential to increase productivity through better management practices and greater motivation of staff. Maximising the potential benefits will require interventions to support better organisational practices to increase productivity gains, but could be easily achieved as part of a deal with those employers who pay a living wage.

Living Wage Places

There are now 16 emerging or established Living Wage Place action groups across the UK, including in Dundee, Cardiff, Glenrothes, Salford, Bristol and the London Boroughs of Southwark and Islington.

- Living Wage Places is a collaborative effort that involves the state, the local private sector and civil society working together to turn the dial on in-work poverty in their place by encouraging local employers to become Living Wage accredited. Local Living Wage action groups are most effective when they share power and ensure wide representation from all sectors within their action group.
- Local Living Wage action groups analyse their local low pay landscape and create three-year plans to engage and incentivise local employers to become accredited as Living Wage employers and celebrate and reward those that are already accredited.
- Local authorities and other anchor institutions are increasingly using the Living Wage Places scheme as part of wider inclusive economy strategies such as community wealth building, using procurement and other mechanisms to increase local wealth and social value.
- Engaging large private sector companies has in some places been challenging but a strong business voice is essential to highlight the tangible benefits of accreditation including retention, reduced absenteeism and having a competitive edge over other employers

Source: Building Back Better with Living Wage Places Briefing Document 2021

The focus on low pay has the potential to support local economic growth and increase productivity, especially in low paying sectors (such as leisure and retail) which lag behind our European counterparts.[15]

However, not all of the benefits will go to local areas. Taxes reduce the wages staying locally, and not everyone will spend where they work. Increased wages could also potentially reduce workers hours and company profits or increase prices.

The purpose of the report is to explore and quantify what the scale of these benefits and disbenefits might be. While the impact of wage floors remains contested, there is a growing body of evidence that they have not resulted in large scale unemployment, but have raised the wages of the poorest paid workers. A narrowing of wage inequalities through the Living Wage therefore could act as a driver within local economies for increased local growth.

Estimating the impact of the Living Wage to local economies

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The impact of the living wage on people and places will be determined by the scale of the uplift, how it is paid for and how much remains in the local economy. Making such determinations is not straightforward. The impact of wage floors remains a contested area with differing views about its impact. There is, however, a growing and rich literature about minimum wages and increasing consensus amongst economists that negative employment effects are not substantial.[16]

Although the Living Wage is voluntary, the report draws on this literature to assess the likely impact for local economies. This section sets out the assumptions, including how much goes into the pocket of the worker and how much goes into the local economy, and how the pay rise is paid for – whether prices rise, hours or jobs are reduced, whether profits cover the cost or productivity increases.

What will the scale of the uplift be?
The Living Wage is set at a level that pays people enough to afford the cost of living. As such, it is higher than the minimum wage and focused on what is required for people to meet their everyday needs.

The Living Wage therefore represents a significant wage increase for workers. Analysis of Labour Force Survey data suggests the average wage increase for someone paid below the Living Wage would be £0.97 per hour in London and £0.56 per hour in the rest of the country (the figure for the rest of the UK is consistent across the regions). Those working below the Living Wage on average work 30 hours in the UK (excluding London) and 31 hours in the capital. As such, the average gross wage increase of moving people onto the Living Wage is around £1,560 in London and £875 in the rest of the country. This equates to a pay rise of around 10% in London and 6% in the rest of the UK.

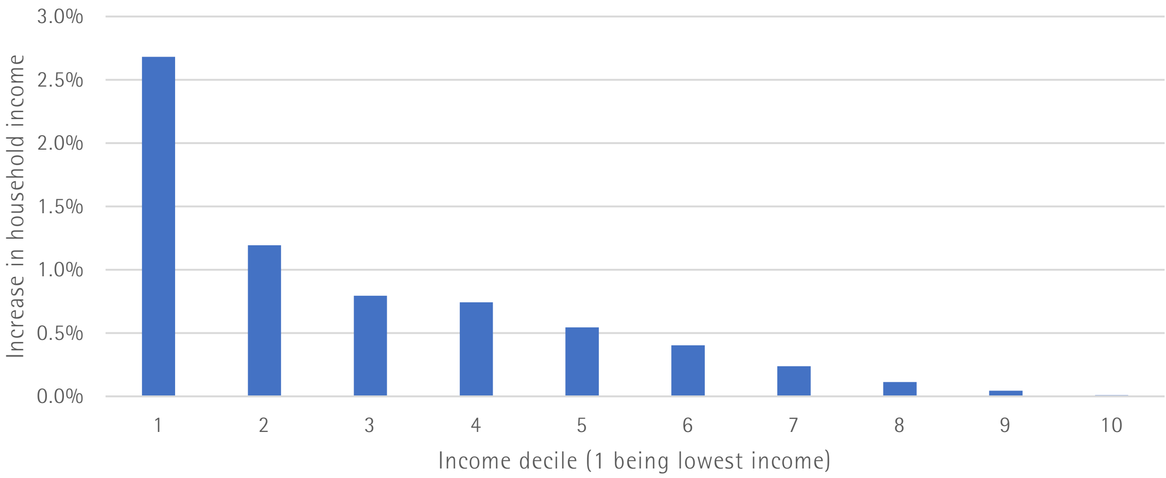
Analysis from the Living Wage Foundation has highlighted the difference that being paid the Living Wage makes when compared with the statutory minimum wage (the National Living Wage). They found that outside London the difference is equivalent to 11 weeks' rent, 23 weeks' food costs or 31 weeks of council tax bills.[17] At a time of concern around reduction in Universal Credit (UC), household debt built up during Covid and energy price rises, a wage increase to the Living Wage can represent a significant increase in income during a financially challenging period for many households.

How much will employees gain?
The whole wage increase will not accrue to workers. Some employees will have to pay additional national insurance and income tax. They will also potentially see a reduction in means-tested benefits and tax credits.

Analysis of the likely impact using the Family Resources Survey suggests that employees paid below the Living Wage will on average see a reduction of 37% in their wage uplift. This marginal deduction rate varies by age (younger people having a lower deduction rate) but is consistent across regions. This rate is also in line with other calculations examining the potential benefits of increased Living Wage take up or a minimum wage increase.[18]

Even after taxes and benefit reductions, the Living Wage uplift in relative terms will benefit those households on lower incomes most. As the graph below demonstrates, the proportionate increase in incomes of the Living Wage is highest amongst those on the lowest incomes.

Increase in household income by income decile (equivalised household income)



Source: Analysis of Family Resources Survey, 2019/20

The Living Wage may have a wider impact than those directly benefitting from a pay rise. Those slightly above the Living Wage may also a see pay increase to ensure wage differentials reflect their experience or skills. As such the Living Wage could have so-called 'spillover effects'.[19] Analysis of wage rates, comparing numbers moving to an uprated minimum wage with what would have been expected (based on average earnings increases) suggests there are spillover effects. This impact is used to estimate the likely effect that an increase in employees being paid the Living Wage might have. Analysis for the report suggest that overall the spillover effect is slightly over 15% of the increase in gross wages.

How will it be paid for?
An increase in the number of workers earning the Living Wage will likely increase the purchasing power of local employees and have induced impacts on the local economy from higher spending. However, these gains could be reversed and be negative if it results in less employment, higher prices or lower profits for local businesses. Assumptions about the impact of Living Wages will therefore determine the estimated local economic dividend (or loss).

Opposition to the introduction of the national minimum wage in the 1990s was centred on the assumption that it would lead to lower employment rates and thus adversely affect the very group it seeks to support. Standard microeconomic textbooks often show how in a competitive market wage floors artificially inflate wages, and reduce demand for labour. However, while minimum wages at some point will likely lead to lower demand the labour market is not perfectly competitive (including imperfect information and search frictions).[20]

A range of studies have examined the extent of the impact of wage floors on hours and unemployment.[21] In 2019, the Treasury commissioned a study of the international evidence to look into the issue given the planned uprating of the minimum wage. It concluded that depending on the research approach taken the elasticity of demand was between -0.04 and -0.17: that for every 1% increase in wage there would be 0.04% to 0.17% reduction in hours.[22]

Given the voluntary nature of the Living Wage and the expectation that those signing up to become Living Wage Employers would be expected to abide by the spirit of the Living Wage and not seek to reduce people's hours, the lower bound reduction in hours is used in this report to model the local impact. To further emphasis the point, the Living Foundation encourages employers to offer Living Hours (decent notice period of shifts, right to a contract that reflects accurate hours, a guaranteed minimum of 16 hours a week) alongside a real Living Wage.[23]

Another impact of the Living Wage could be that the consumer pays through higher prices. This has been examined in a number of studies examining the impact of minimum wages,[24] including a recent study by Frontier Economics for the Low Pay Commission. It concluded that the elasticity of prices in respect to the minimum wage of between 0.02 and 0.11.[25] This is used in assumptions about the cost implications of the Living Wage uplift with the lower bound used given those paying the Living Wage will be competing against those not signed up.

Higher wages could also be met through lower profits.[26] It is assumed in the analysis that after employment and price effects that 30% of additional cost of the wage rise is met by reduced profits, which is in line with assumptions from the Office for Budget Responsibility (OBR) regarding the impact of an increase in the minimum wage and other studies.[27]

One of the potential benefits of higher wages is that they can lead to increased productivity. As proponents of the Living Wage have long argued, paying people a decent wage doesn't only ensure employees have enough income to live but also provides wider economic and firm benefits.[28] The evidence from the introduction of the national minimum wage has suggested that there have been significant productivity gains. One study concluded that: "Our results suggest that these labour cost increases amongst low-paying firms may have been met by increases in labour productivity"[29] (and not achieved through capital labour substitution). Significant productivity gains were also found to be evident in another academic study of low paying sectors since the introduction of national minimum wage in 1998[30] and is supported by international evidence.[31] Given the evidence around the introduction of the minimum wage being productivity enhancing, it is assumed that the residual of the wage uplift not paid for through hours, prices or profits is met by increased productivity.

Multiplier effects and leakages
The impacts of the greater take up of the Living Wage are likely to have implications for the local economy. If the impacts are positive then the Living Wage will drive further economic growth. As such there will be induced multiplier effects as higher wages result in additional consumer spending, in turn creating additional economic growth. Such multipliers are likely to be higher if money is directed towards lower income households who tend to spend more than wealthier ones, who tend to save more.[32]

The Treasury has outlined expected multiplier impacts of changes in tax and spend. The table on the next page highlights the difference between a change in personal allowance and welfare measures. For every additional pound of income tax cut (or national insurance) an estimated 30p of economic activity is generated. For welfare, an additional £1 results in 60p of economic activity. As such, reductions in taxes on work are lower than social security, because the latter is directed at those on lower incomes.

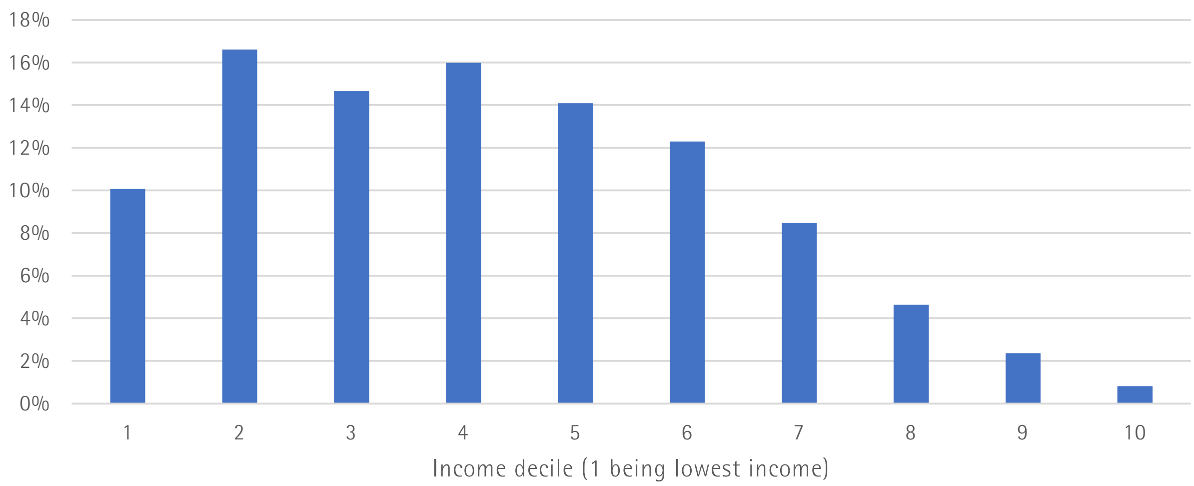
Fiscal multipliers

	Impact multipliers
Change in VAT rate	0.35
Changes in the personal tax allowance and National Insurance Contributions (NICs)	0.3
AME welfare measures	0.6
Implied Resource Departmental Expenditure Limits (RDEL)	0.6
Implied Capital Departmental Expenditure Limits (CDEL)	1.0

Source: HMT, June 2010 Budget

The analysis of the distributional impact of uplifting workers to the Living Wage showed that it was in proportionate terms progressive. Households on the lowest incomes are likely to see the highest rise in income from the Living Wage relative to their income. In absolute terms the gains are more evenly distributed (see below) given those on lowest incomes are less likely to be in work and therefore benefit from the Living Wage. Nevertheless, even in absolute terms the benefits skew towards those in lower income households who are more likely to have lower paid workers. As such it is assumed that there would be a multiplier of 0.45 for the Living Wage uplift. This was used for a similar study looking at the impact of uprating the minimum wage.[33]

Share of the net Living Wage benefit by income decile (equivalised household income before housing costs)



Source: Analysis of Family Resources Survey, 2019/20

There are also potential multipliers for profit levels. It is expected that profits meet part of the increased wage bill. As such multiplier impacts would be negative. The distributional dimension to business ownership means that the multiplier is likely to be lower. Multipliers used in the US for tax changes made in 2015 suggested the fiscal multiplier regarding corporation tax measures was between 0 and 0.4.[34] As such, the multiplier on reduced profits is assumed to be 0.2.

Such multipliers may underestimate the scale of the impact as they are based on economies during normal times. However, the pandemic has led to a rise in unemployment and GDP is significantly below 2019 levels.[35] While average fiscal multipliers in normal times are expected to be around 0.5 (including the Treasury's fiscal multipliers presented above) they can be more than double this during recessions.[36] For example, the IMF findings suggest that they rise from 0.5 to between 0.9 to 1.7.[37] The lower bound (a doubling) increase is used to assume that multipliers are currently double usual levels due to the downturn.

Leakages

The impact of increased take up of the Living Wage will be in part determined by how much of the impact is experienced within an area and how much beyond its boundaries. For example, if larger pay packets are expected to lead to greater consumption, how much will be spent locally? Generally, such leakages will be larger where the geographic scale is smaller as people are more likely to live and work in different areas.[38] The leakage is also likely to be lower for low paid workers who work closer to where they live.[39]

Analysing Labour Force Survey data[40] shows that outside the capital three quarters (73%) of workers paid below the Living Wage live in the local authority that they work in. This held true across the country (including for those in local authorities within city regions).

However, London's economy is more integrated regarding people moving between authorities. As such, for those paid below the Living Wage, just under half (49%) work in the local authority they live in. At a regional level, because of the size of the area is larger, a high proportion of low paid workers live and work in the same region – 95%. These figures are used to estimate wage leakages, which is in line with other research examining local benefits of economic activity.[41]

Just as not all wages will be spent locally, so a reduction in profits will not only impact the local area. Using data from Scotland which documents where businesses are registered by number of employees,[42] analysis for this report estimates that 50% of businesses are registered in the same local authority, two thirds within the same region, and 83% within the UK. This is used to estimate the leakage of any reduction in profits. Alongside this, profits are further adjusted for a decrease in corporation tax which would be not remain in the area but go to the Treasury. Assumptions about costs also factor in increased cost of employer National Insurance contributions which would also not remain in the area but be paid to the Treasury.

Summary of assumptions
The report makes the following assumptions about how a pay rise to the Living Wage is likely to be paid for. These are based on both the voluntary nature of the Living Wage and also the analysis seeking to assess the impact of 25% (a minority) of low paid workers seeing their wages increase to the Living Wage.

- There would be a slight reduction in hours of 0.04% fall in hours for every 1% increase in wage. It is assumed this will come through hours rather than employment.
- Prices would increase by 0.02% for every 1% increase in wages.
- 30% of the increase in labour costs are met by reduced profits.
- The residual is met by productivity improvements

The impact on the local economy is determined by the following assumptions:

- Employees retain 63% of increased wages with a marginal deduction rate (tax payments and reduced benefits) of 37%.
- Expected leakages of spending and profits vary according to place.
- Multipliers for spending are assumed to be 0.9 because of the stage of the economic cycle and 0.4 for reductions in profits.

The local economic benefits of the Living Wage

The local economic benefits of the Living Wage

Based on the assumptions set out in the previous section, the average annual GVA increase of a wage uplift to the Living Wage is around £700 per worker in a London local authority, £730 per worker in a local authority in the rest of the UK, £910 per worker in a nation or region outside London. For London as a whole it would be higher at £1,520 per year. The higher London-wide impact reflects the larger Living Wage increase. At a local authority level, the lower figures reflect larger wage leakages to surrounding authorities (especially in London) than the leakages experienced at a regional of national level (see previous section for more detail).

The following examines what the scale the impact would be for local economies if there was large take-up across different local authorities and city regions. It does so by examining the impact on local economies if 25% of low paid employees paid benefitted from a pay rise to the Living Wage. The section also provides details of the impact that Living Wage Places could have on local economies.

The impact of Living Wage Places – Dundee and Cardiff
As mentioned, the idea of Living Wage Places is to encourage places of different sizes with different labour markets to develop ways of increasing Living Wage employer accreditation.

In 2019 Dundee became the first city to be recognised by the Living Wage Foundation for Making a Living Wage Place. The rationale behind the council's decision was to put down a challenge to local businesses and support a more inclusive economy.

Since declaring itself on the journey towards becoming a Living Wage City an additional 384 employees have benefited from a pay rise to the Living Wage. Using the analysis from the report this will have supported an estimated £280,000 of additional growth in Dundee. Including those previously on the Living Wage, the economy has been supported by an estimated £1.1m.

In 2019 Cardiff became recognised as a Living Wage City, and to date has 146 Living Wage employers in the city. Through the efforts of the local Living Wage action group more than 3,000 people have moved onto the Living Wage since 2019. This will have added £2.5m to the local economy, and when included with previous efforts before 2019, the Living Wage will have added an estimated £5.8m to the economy.

Potential impact of Living Wage uplift on towns and cities
If other places emulated the examples of Cardiff and Dundee as Living Wage Cities there would be potentially significant economic benefits for towns, cities and the country as a whole.

To examine the possible impacts by place, we assume that areas move one in four employees paid below the Living Wage up to the Living Wage rate. Obviously, the higher the number of workers that are moved to the Living Wage the greater the economic benefits. However, a 25% uplift provides an achievable target with measurable outcomes.

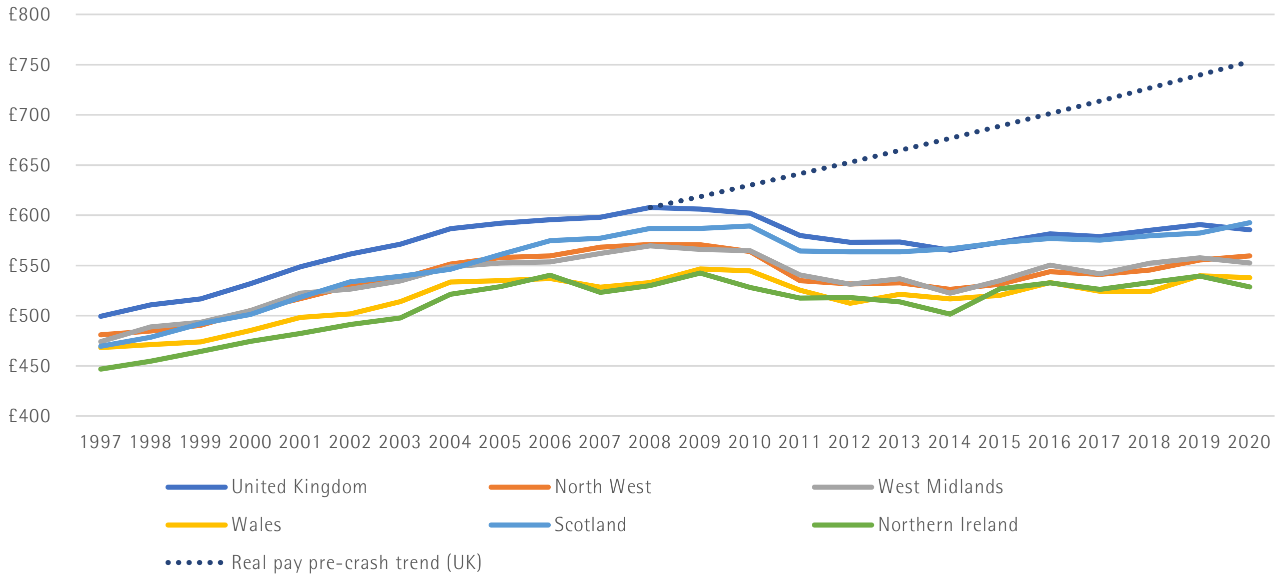
On the 25% uplift basis – and using the other assumptions outlined in the report – the Living Wage dividend can by calculated for most places in the UK. For example, in Ipswich it would add £2.8m to the local economy, in Blackpool's £3.2m and Bury £2.4m. At a city region scale, with less leakage, the benefits of a 25% increase in Bury's city region, Greater Manchester, would be £56m. The benefit to Dudley would be £5.0m and to the West Midlands city region £53m. The benefit to Cambridgeshire and Peterborough Combined Authority would be £31m and for London £328m. Nationally, it would total an annual increase of £1.5 billion.

At this larger scale there are also national benefits, including for public finances. Over a third of the wage uplift, for example, goes to the Treasury through increased taxes and reduced benefits.

The evidence in the report suggests that multiplier effects of higher wages and therefore spending and increased productivity would drive the increased economic output.

There is certainly scope for a wage-led recovery from the pandemic. Over the last decade there has been a recognition of the damaging impact of inequality on economic growth. Inequality is viewed as reducing aggregate demand leading to sluggish growth rates and increased financial risk.[43] Moving a quarter of low paid employees to the Living Wage would therefore support efforts to reduce inequality and support wider economic growth. It would also support increased pay levels which across the country have in real terms remained flat since the financial crash – as shown in the figure below. Across the country, if all places increase the pay of a quarter of low paid employees to the Living Wage there would be an increase in £890m in annual take-home pay.

Full time weekly pay rates 1997 to 2020 (CPIH-adjusted), selected areas



Source: Analysis of Annual Survey of Hours and Earnings data

Capturing the wider benefits

There would also be wider benefits for the local economies and efforts to increase productivity. As noted, evidence suggests that increasing pay (through wage floors) can support productivity gains. The reasons why higher wages could boost productivity vary from organisational management practices,[44] increased training,[45] reduced levels of job churn,[46] reduction in the level of supervision required, and employee effort (fair-wage effort theory)[47], and team cohesiveness.[48] These benefits were reflected in a survey of Living Wage employers by Cardiff University, which found a majority stated that relationships between management and staff improved as did staff retention.[49] These findings echo those of research conducted by Queen Mary University a decade ago.[50]

The importance of low pay sectors to keep our economy moving and the essential work of employees within them was highlighted during the pandemic. Within these sectors there are potentially large productivity gains that could be made in the UK. Research for the Joseph Rowntree Foundation has demonstrated that UK productivity is particularly weak in low paid sectors.[51] Something which is seen as part of the UK's 'low skills equilibrium'.[52] The Living Wage could therefore be viewed as a way of supporting greater productivity within an area. This could require the Living Wage Foundation, employers and local authorities working together to help improve operational and management practices to boost output.

The impact of a pay rise would also help those local authorities and city regions whose economic development strategies are focused on tackling low pay, poverty and inequality. It would also make a considerable impact for those individual workers who receive the pay rise.

Increasing employees pay to the Living Wage, overall, would for example, result in an average pay rise of 10% in London and 6% in the rest of the UK. At the individual level the net annual benefits of a Living Wage (after taxes, benefit changes, employment effects) on average are £950 per employee in London and £520 per employee in the rest of the UK.

Thousands of employees would benefit from an average net pay rise of £580 per year. Testimonials given to the Living Wage Foundation about the difference it makes speak for themselves.

"Before being paid a Living Wage, life was difficult financially for me. I am a single parent, and was working to try and have enough money to pay my bills, and provide for myself and my son. I had no social life, and constantly had to tell family and friends that I was unable to meet them for a meal and drinks."

"Earning the Living Wage means I'm not so tired, I can give up some extra part time work and there's a little left at the end of the month"[53]

Such efforts will have wider benefits and help meet other economic development objectives. For example, around 60% of employees benefitting from a pay rise to the Living Wage will be women, thus supporting local efforts to reduce an area's gender pay gap. Analysis of the Family Resources Survey for this report suggests that around a quarter of those receiving a pay rise are likely to be in poverty, thus an increase in take up will help local efforts to support those in or at risk of poverty.

Such interventions are also likely to have a positive impact on health and well-being. Low pay has been identified as driver of poor health outcomes,[54] which itself reduces economic output.[55] These positive welfare and societal gains are additional to the narrowly economic ones and thus further strengthen the case for wider promotion of the Living Wage by local economic actors.

Examining the impact shows that there are considerable benefits for local economies and residents. The evidence highlights the potential to support economic and productivity growth and tackle low pay and inequality. As such, there is potential for local authorities and city regions to reap the rewards of the local Living Wage dividend.

Conclusion

Conclusion

Paying the Living Wage has been shown to have a transformative impact on people's lives. The Living Wage enables low paid workers to meet their everyday needs and build up resilience for sudden financial shocks. Despite this one in five workers are paid below the Living Wage. This statistic was all the more powerful during the pandemic, which placed the spotlight on low pay and inequalities in the labour market. The pandemic has also demonstrated how essential those performing low paid jobs are to making our economy function and prosper.

This report has sought to understand and quantify the even greater impact to local growth low paid workers could make if they were paid the Living Wage. Emerging research from the wage floors suggest disemployment impacts may be minimal and a pay rise would deliver significant benefits to individual employees. Research also highlights how Living Wages could be productivity enhancing.

Applying this to local economies shows how the Living Wage can support growth within places through a wage uplift, greater spending and increased productivity. As we exit the pandemic and the worst of the recession, there is an opportunity for local economic actors to deliver a wage-led recovery. This could be enhanced if there is support for organisational improvements to increase efficiency while paying staff more.

The benefits of the Living Wage are increasingly recognised in local economic strategies and by local authorities and city regions. As the report shows the Living Wage can help meet wider economic objectives, including around tackling poverty and narrowing the gender pay gap. Such evidence makes the case for a concerted effort to increase Living Wages. Set against the backdrop of Covid and its impact of low paid workers, this could help towns and cities secure a fairer and more prosperous recovery.

Endnotes

Endnotes

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